

Issuer: Chew's Group Limited
Security: Chew's Group Limited

Meeting details:

Date: 25 January 2017

Time: 10:30H

Venue: Civil Service Club (Seminar Room 1&2), 91 Bukit Batok West Avenue 2, Singapore 659206

Company Description

Chew's Group Limited, an investment holding company, produces and sells eggs in Singapore and the People's Republic of China. The company operates through Designer and Generic Eggs; Liquid Eggs; Spent Grains; Food Processing; Aqua Culture; and Others segments. It provides generic and designer eggs under the Chew's brand name, as well as liquid eggs, brown eggs, black chicken eggs, and kampong chicken eggs. The company also trades in spent grains, eggs, and food and agricultural products, as well as chicken, feed material, and others; produces and sells chicken soups; engages in rearing and sale of sea cucumbers; and provides engineering, maintenance, and construction services. It serves egg wholesalers, food and beverage outlets, supermarkets, and hypermarkets. The company was founded in 1975 and is based in Singapore. Chew's Group Limited is a subsidiary of Fenghe Investment Holding Pte. Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5SY)

Q1. In the “Letter to Shareholders” (page 7 of the annual report) and in the company’s announcement dated 27 May 2016, it was disclosed that the new 20 hectares site along Neo Tiew Road will be developed into an integrated farm with an automated control system, an egg processing plant, a pasteurised liquid egg plant and a feed processing plant. Upon completion and full operation of the New Farm, the New Farm will possess the capacity to produce 1,000,000 eggs per day, an increase of 100% from the existing production capacity of 500,000 eggs per day.

The current production at the Murai farm is approximately 340,000 eggs per day, or about 8 per cent of Singapore's egg consumption. Following the expected move in May 2019, the group plans to attain a daily production of 580,000 eggs, which is a 70% increase from the current level.

- a) **How much more efficient is the new farm in terms of production costs?**
- b) **Will the new integrated farm allow the company to lower the costs to a level where it can be as competitive as imported eggs?**
- c) **Can the market support the new supply? How does the group intend to market the new supply so that it will not lead to depressed margins?**

The planned capital expenditure to build and equip the New Farm is approximately S\$77 million. In the 27 May 2016 announcement, the company announced that the current shortfall of approximately S\$32 million will be financed by way of borrowings and/or external funding.

- d) **In addition to the capital expenditure for the farm, the company will require higher working capital in view of the higher level of biological assets, feed and stock. Has the board reviewed the current capital structure? Is the board confident that the current balance sheet is able to support the group’s growth?**

Q2. The group produces natural chicken soup at the group’s owned factory located at Food XChange @ Admiralty. The factory was acquired in 2013 at a cost of \$1.55 million. The external revenue from the food processing segment for 2016 is \$4,552, resulting in a segment loss of (\$149,880).

- a) **Can management update shareholders on the progress made in the food processing segment?**
- b) **What are the plans for the group’s chicken soup? Would it be the group’s market entry strategy to focus on the consumer market (B2C) or on the wholesale (B2B) segment?**
- c) **If it is a consumer product, can the group leverage on its current partners to launch the new products in the supermarkets?**
- d) **Would this be critical to the group’s expansion plans if the food processing segment is unable to process sufficient spent hens?**

Q3. In the Circular to Shareholders dated 3 January 2017, the proposed new constitution included clauses to “convert one class of shares into another class of shares”. For instance, 10(A) in the original Circular to Shareholders stated that:

10 (A) The Company has power to issue different classes of shares, including shares which confer special, limited or conditional voting rights, or which do not confer voting rights.

On 6 January 2017, the company issued a corrigendum to the Circular to Shareholders to specifically amend Regulations 10(A) and 10(B).

Can shareholders understand the thinking of the company/board with regard to dual class shares?