

Issuer: Old Chang Kee Ltd.

Security: Old Chang Kee Ltd.

Meeting details:

Date: 26 July 2017

Time: 2.00 p.m.

Venue: Seletar Country Club, 101 Seletar Club Road Singapore 798273, Theatrette Level 1

Company Description

Old Chang Kee Ltd., an investment holding company, manufactures and distributes food products under the Old Chang Kee brand in Singapore, Australia, and Malaysia. The company offers traditional, seafood, and chicken favourites, as well as desserts and breakfast products. It also operates retail food outlets; provides delivery and catering services; and franchises rights to sell its products, as well as engages in general trading activities. The company operates Curry Times, a themed restaurant; Curry Times Tingkat, a self-service concept store; Mushroom Café, an al fresco concept eatery; O' My Darling, a mobile kitchen; and Dip'n'Go, a concept of food on the go. As of March 31, 2016, it operated a total of 83 outlets in Singapore. Old Chang Kee Ltd. was founded in 1956 and is based in Singapore.

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

Q1. The group's new factory facilities at 4 Woodlands Terrace and Iskandar Malaysia became fully operational in FY2017 while the new factory facility at 2 Woodlands Terrace is undergoing the final phase of its renovation works, after which it will be fully integrated with the new adjacent factory at 4 Woodlands Terrace. In the Chairman's Statement and operations review (pages 2 to 7 of the annual report), it was stated that "the integrated factory facilities at 2 Woodlands Terrace and 4 Woodlands Terrace will feature modern technology and machinery that will further improve our food consistency, labour efficiencies and space productivity".

- a) **Can management elaborate further and quantify how the group's productivity is expected to improve?**
- b) **What is the impact on the cost structure of the group?**
- c) **What is the increase in the group's capacity?**

Q2. In 2017, the group also recognised a deficit on the revaluation on property, plant and equipment of \$2.997 million (\$2.664 million for the group's factory facilities in Singapore and \$0.333 million for the group's factory facilities in Malaysia) (page 143 – Segment Information), leading to a \$5.132 million revaluation deficit (page 106 – Property, plant and equipment).

The valuation of freehold land and buildings is one of the key audit matters in the Independent Auditor's Report that were of most significance in the audit of the financial statements of the current period. The Independent Auditor has stated that:

"We assessed the Group's process relating to the selection of the external valuers, the determination of the scope of work of the valuers and the review of the valuation reports issued by the external valuers. We evaluated the independence, qualification and competence of the external valuers. We read the terms of engagement of the valuers entered into with the Group to determine whether there were any matters that might have affected the valuers' objectivity or placed limitations in the scope of their work. Our internal specialists assisted us in assessing the valuation methodologies adopted by external valuers and the reasonableness of the price per square metre used in the valuations by comparing to industry data, taking into consideration comparability and market factors. We further assessed the adequacy of the disclosures in Note 11 to the financial statements."

Note 11 (Property, plant and equipment) from pages 106 to 110 only disclosed the impairment testing carried out by management on the recoverable amount of the property, plant and equipment located in Malaysia. There is no detail nor justification on the revaluation deficit of the group's factory facilities in Singapore which was written down by \$2.664 million.

- a) **Can the independent auditor help shareholders understand how they had addressed the valuation of freehold land and buildings (KAM #2) in the audit?**
- b) **Since the independent auditor has "further assessed the adequacy of the disclosures in Note 11 to the financial statements" with regard to KAM #2, does the independent auditor consider the disclosures as adequate?**
- c) **Can the audit committee provide better visibility into the revaluation deficit of \$5.132 million?** The carrying amount of "Buildings" (as part of property, plant and equipment) decreased from \$12.886 million in 2016 to \$7.333 million in 2017. **What are the reasons that led to the revaluation deficit of \$2.664 million for the group's factory facilities in Singapore?**

Q3. In Note 37 (page 145 - Events occurring after the reporting period), the group had, on 27 April 2017, injected additional capital of \$537,000 in its joint venture, Old Chang Kee UK Limited. As noted in the company's announcement dated 10 January 2017, the business of Old Chang Kee UK is to, amongst others, "carry on the operation of food retail outlets and the manufacture, distribution and trading of food products within the United Kingdom".

- a) **Can management elaborate further on the group's plan for the UK market? What is the market entry strategy for OCK in the UK?**

- b) **Who is the joint venture partner in Old Chang Kee UK?**