Issuer: Envictus International Holdings Limited
Security: Envictus International Holdings Limited

Meeting details:
Date: 30 January 2018
Time: 10.00 a.m.
Venue: Crystal Suite, Level 2, Holiday Inn Singapore Orchard City Centre, 11 Cavenagh Road, Singapore 229616

Company Description

Envictus International Holdings Limited provides various food and beverage products in Malaysia, China, rest of Asia, New Zealand, Australia, and internationally. The company's Trading and Frozen Food division imports and distributes food products in raw and processed form for the hospitality and consumer-based food industries. Its products include turkeys, French fries and other related potato products, vegetables, fruits, herbs and spices, fresh fruit juices, assorted cheeses, and other canned products and condiments, as well as dairy whipping creams, assorted cheeses, seafood, pasta and various condiments, chilled and frozen beef, lambs, venison, canned fruits, seafood, and dairy products. The company's Food Services division develops and operates Texas Chicken restaurants in Malaysia and Brunei; owns a specialty coffee chain under the San Francisco Coffee brand name; and operates restaurant under the Delicious brand name serving Western and Asian-fusion cuisine. The company's Nutrition division markets branded sports nutrition and weight management food products to athletes and mass consumer markets under the Horleys, Sculpt, Replace, and Pro-Fit brand names. Its Food Processing division provides bakery, butchery, beverages, dairy and juice based drinks, raw frozen dough, and baked frozen products for hotels, restaurants, cafes, and other food service industries. This division also offers fresh breads and buns to hypermarkets, supermarkets, factory canteens, petrol marts, grocery stores, and convenience shops. In addition, it offers cold cuts, sausages, portion control meat, and smoked salmon for supermarkets, hotels, and restaurants; and carbonated and non-carbonated drinks under the Poly and Polygold brand names, as well as sports drinks. The company was formerly known as Etika International Holdings Limited and changed its name to Envictus International Holdings Limited in July 2014. The company was founded in 1997 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BQD)

Q1. As disclosed in the "Message from the Chairman" (pages 15 to 16 of the annual report), the prospects for the Food Services Division appear to be promising. It was noted that:

- Food Services Division's topline continued its strong showing, achieving a significant 60.2% growth to RM129.1 million in FY2017
- San Francisco Coffee chain … posted an additional sales of RM12.6 million …
- … continued to invest in the growth of Texas Chicken and San Francisco Coffee and incurred operational costs including a rebranding exercise for our newly acquired Delicious restaurants business
- We are pleased that Texas Chicken remains a 'star performer'... opening 11 additional new restaurant outlets and another three stores recently … to reach the current 42 stores… opening at least 11 stores in the north and south of Peninsular Malaysia, if not more, for the next 12 months
- San Francisco Coffee … growing from 28 outlets at acquisition to 38 to date … with plans to open twelve new stores in FY2018
- Indeed, our expansion into Texas Chicken and San Francisco Coffee chain has proven to be successful, and is also part of our growth strategy to increase the presence of the Group's identity and brands in Malaysia and later to its neighboring countries.

Despite the optimisim and the achievements, the Food Services segment reported a loss of RM(13.5) million. A summary of the performance of the business segments (page 21) is reproduced for reference.

SEGMENTAL REVIEW BY BUSINESS DIVISIONS

BUSINESS SEGMENTS	FY2017 RM'000	FY2016 RM'000
REVENUE		
Trading and Frozen Foods	170,907	170,577
Food Services	129,088	80,647
Food Processing	76,178	75,102
Nutrition	34,158	36,348
	410,331	362,674
(LOSS)/ PROFIT BEFORE TAX		
Trading and Frozen Foods	11,967	10,882
Food Services	(13,486)	(8,194)
Food Processing	(13,818)	(8,517)
Nutrition	(1,309)	374
Unallocated	(32,794)	8,967
	(49,440)	3,512

(Source: Company annual report)

a) Can management provide a breakdown of the performance of each of the three brands in the Food Services Division?

b) Please also provide a further breakdown of the same-store revenue growth for the 33 outlets from 2016 to 2017?

The group has continued to invest in the Food Services Division with the additional of RM25.4 million in capital expenditure in the year (page 128 – Segment information).

Even though the business has scaled up substantially (revenue increasing from RM80.6 million to RM129.1 million), the segment has not been profitable. In fact, the loss has widened to RM(13.5) million in 2017, an increase of 65%.

c) Can management tell shareholders how much more they intend to invest in each of the three brands in the Food Services Division?

Management has stated that there are plans to open 11 Texas Chicken outlets and 12 San Francisco Coffee outlets in 2018.

d) Please provide better visibility of the long term growth plans for Texas Chicken and for San Francisco Coffee.

e) How soon does management expect each of the three brands to break even and turn profitable?

f) What are the other factors (financial and non-financial) that management can share to demonstrate to shareholders that the three brands (especially Texas Chicken and San Francisco Coffee) are viable financially and the growth plans are not excessive?

(Note: This question is updated/expanded from a similar question posted to the company following a review of the company's 2016 Annual Report. The questions can be obtained from the link below).

Q2. The group recognised an impairment loss amounting to RM32.9 million on Yamada Green Resources Limited ("Yamada") whose trading has been suspended on the Singapore Exchange since 6 September 2017. Yamada has not been able to provide its financial statements after a fire incident destroyed certain financial documents and IT/computer hardware. The auditors of Yamada have also made a report with the Ministry of Finance.

When the company purchased the 11.43% stake in November 2015, it acquired 65,900,000 shares at SGD7,908,000 via off-market transaction ($0.12 per share) and a further 26,776,600 shares at SGD2,591,974.88 via market transaction ($0.0968 per share). Based on the announcements made by Yamada, the counterparty of the off-market transaction was a "Gilbert Ee Guan Hui".

As disclosed in the company's announcement dated 5 November 2015, the aggregate consideration of S$10,499,974.88 was 16.01% of the company's market capitalisation.

The acquisition was said to be "a strategic investment by the company in the food industry". It was also anticipated that the group will have "an additional stream of income by way of dividend income, which is higher than the interest income which the Company is earning".

a) What is the level of due diligence by management before the company made the acquisition of the 11.43% stake in Yamada?

b) Considering that the acquisition was more than 16% of the company's market capitalisation, can the board confirm that it had approved the acquisition? If so, what due diligence did the board carry out prior to its approval?

c) As a 11.43% investor, did the company have any access to the management of Yamada or to the management accounts?

d) Can the board/management help shareholders understand the efforts by the company to engage the investee company prior to the trading suspension?

e) Since the trading suspension of the investee company, what has the company done to protect its interests?

(Note: This question is updated/expanded from a similar question posted to the company following a review of the company's 2016 Annual Report. The questions can be obtained from the link below).

Q3. The Nominating Committee (NC) comprises Mr Teo Chee Seng (as chairman), Mr John Lyn Hian Woon and Dato' Jaya J B Tan.

As Mr John Lyn Hian Woon and Mr Teo Chee Seng have each served on the board for more than nine years, the independence of the long tenured directors is subject to particularly rigorous review.

The company has disclosed that, following a rigorous review, the NC and the Board are satisfied with the directors' "*continued independence in character and judgement in discharging their responsibilities as directors of the company*…" (page 44).

a) As the two long tenured directors who are subject to the rigorous review of their independence are members of the three-member NC, can the NC describe in detail how it had conducted the rigorous review of Mr John Lyn Hian Woon and Mr Teo Chee Seng?

b) Can the NC and the board confirm that no director was involved in the review of his own independence?

Notwithstanding that the NC, with the concurrence of the Board, is satisfied that both Mr Lyn and Mr Teo have remained independent in their judgement and can continue to discharge their duties objectively, Guideline 2.4 of the 2012 Code of Corporate Governance (Code) calls for the board to "also take into account the need for progressive refreshing of the Board".

c) Can the company let shareholders know the near-term plans for the progressive refreshing of the board, given that all the independent directors have each served on the board beyond nine years from the date of his first appointment?

A copy of the questions for the Annual Report for the financial year ended 30 September 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Envictus%20International%20Holdings%20Ltd

The company's response could be found here: -----