

Issuer: BreadTalk Group Limited

Security: BreadTalk Group Limited

Meeting details:

Date: 20 April 2018

Time: 9.30 a.m.

Venue: 30 Tai Seng Street, #09-01 BreadTalk IHQ Singapore 534013

Company Description

BreadTalk Group Limited, an investment holding company, engages in bakery, food court, and restaurant businesses in Singapore, Mainland China, Hong Kong, and internationally. The company manufactures and retails various food, bakery, and confectionary products, as well as engages in franchising activities. It also manages and operates food courts, food and drinks outlets, eating houses, and restaurants. In addition, the company is involved in acquiring and holding intellectual property rights; wholesaling confectionery and bakery products; processing, selling, and distributing premium coffee beans and tea dust; and distributing related processing equipment. The company operates 862 bakeries, 57 food atria, and 32 restaurants. BreadTalk Group Limited was founded in 2000 and is headquartered in Singapore.

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

1. The group has now grown to 4 business segments of Bakery, Food Atrium, Restaurant and 4orth, the last being a new business division where the group will develop F&B concepts and products that customers want, as well as to strategically collaborate with renowned F&B partners.

Nevertheless, the Bakery division remains the most visible of the group's businesses as there are more than 870 outlets in the region, with the majority of them operating as BreadTalk. The Bakery segment contributed nearly half the group's \$599.7 million revenue and accounted for about a quarter of the group's profit before tax.

The EBITDA margin of the Bakery division was on a downward trend since FY2010 until it showed a marked improvement in FY2016, jumping from 7.3% to 9.5% in FY2016. However, in FY2017, it once again slipped to 7.8%.

- (i) **Can management elaborate further on the reasons for the “planned early termination of eight franchisees” during the year (page 22)?**
- (ii) **Lower profitability at the Singapore and Shanghai direct operated stores and lower contribution from the high-margin Mainland China franchise business were cited as reasons for the 20.5% dip in EBITDA. Shareholders would like to understand if this was one-off and that profitability will be restored or if this was a permanent trend for the Bakery division.**
- (iii) **How would the joint venture with the 115-year old Japanese trading firm Shinmei Co Ltd for the sourcing, procurement and supply of flour, rice, sugar, dairy, seafood and product packaging improve the cost structure for the group? What cost savings can be expected as a result?**
- (iv) **Can management also discuss (and quantify) the potential of the Myanmar and the India markets? What is the market entry strategy for these new markets where bread may not feature significantly in the local's diet?**
- (v) **Would the company also help shareholders understand the positioning strategy for the new stores under the Wu Pao Chun brand? Would it lead to significant cannibalisation of the group's BreadTalk sales?**

2. As shown in Note 35 (page 153 – Capital management), the group has a gearing ratio of 51% as at 31 December 2017. The group has defined gearing ratio as “net debt divided by total capital plus net debt”. As at 31 December 2017, the net debt amounted to \$136.3 million while total capital stood at \$132.0 million.

- (i) **Has the board deliberated on the group's capital management approach? Has it set an upper limit to the leverage that the group can employ?**

On 10 January 2018, the company announced that it had issued S\$100 million in principal amount of 4.00% notes due 17 January 2023.

- (ii) **Would the board explain in greater detail the optimal capital structure for the group to support its business needs?**
- (iii) **With the issue of the new \$100 million note, how would management be deploying the proceeds?**
- (iv) **Has the board set a maximum amount that the group will invest in the non-F&B business such as properties?**

In Note 13 (page 110 – Investment securities), the group disclosed the following:

13. INVESTMENT SECURITIES (CONT'D)

Debt securities

During the financial year, a subsidiary, BTG Vault Pte Ltd ("BTGV") purchased leveraged credit linked investment products through a reputable bank in Singapore. The investments will yield periodic interest income at a net effective interest rate between 7.1% and 8.7% per annum and will mature between July 2018 and December 2018.

- (v) **How does the board provide guidance and oversight to the financial discipline of the group?** The company bought leveraged credit linked investment products from a "reputable bank" in Singapore. This does not appear to have any relevance to the group's core business. **With the additional funds from the note issuance, how does the board provide oversight to ensure that the company stay focus on its core strengths and deploy capital to its own circles of competence?**

3. Mr Ong Kian Min was first appointed to the board on 30 April 2003 and Mr Chan Soo Sen was appointed on 14 August 2006. Accordingly, Mr Ong and Mr Chan would have served on the board for 15 years and almost 12 years at conclusion of the company's Annual General Meeting on 20 April 2018.

The composition of the Nominating committee (NC) comprises Mr Ong Kian Min (as chairman), Mr Chan Soo Sen and Dr Tan Khee Giap.

In the company's Corporate Governance Report, the company has disclosed the following:

In line with Guideline 2.4 of the Code, the NC had conducted a rigorous review on the independence of the Independent Directors, Mr Ong Kian Min ("Mr Ong") and Mr Chan Soo Sen ("Mr Chan") and considers them as independent even though they have served on the Board beyond 9 years. (page 36)

- (i) **As the directors under review are also members of the NC, can the NC confirm that no director was involved in the rigorous review of his own independence?**
- (ii) **If so, can the NC elaborate further on how the rigorous review was carried out given that two out of the three-member NC are subject to the rigorous review of the director's independence?**

Guideline 2.4 of the 2012 Code of Corporate Governance calls for the board to "take into account the need for progressive refreshing of the board".

- (iii) **Notwithstanding that the NC has considered the two long-tenured directors as independent, what deliberations did the directors have related to the progressive refreshing of the board?**