Issuer: QAF Limited
Security: QAF Limited

Meeting details:
Date: 26 April 2018
Time: 11.00 a.m.
Venue: William Pickering Ballroom, Level 2, PARKROYAL on Pickering, 3 Upper Pickering Street, Singapore 058289

Company Description

QAF Limited, an investment holding company, manufactures and distributes bread, bakery, and confectionery products. The company operates through four segments: Bakery, Primary Production, Trading and Logistics, and Investments and Others. It is also involved in the provision of warehousing logistics for food items; trading and distribution of food and beverages; production, processing, and marketing of meat; and feedmilling and sale of animal feeds and related ingredients. In addition, the company engages in the leasing investment activities; operation of supermarkets; share trading and investment activities; leasing of industrial properties; and operation of cold storage warehouses, as well as operates as a purchasing agent for bread, confectionery, and bakery products. It has operations primarily in Singapore, Malaysia, the Philippines, Australia, and China. The company was formerly known as Ben and Company Limited and changed its name to QAF Limited in October 1984. QAF Limited was incorporated in 1958 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=Q01)

Q1. Can the board and/or management provide better visibility to shareholders on the following matters relating to operations of the group?

a) **China Bakery Business:** Following the strategic review of the bakery business in the PRC (as announced on 24 February 2017) the group announced on 28 December 2017 that it has ceased operations of the PRC bakery operations. A "cessation costs of $2.6 million" was recognised in the financial year. The company has also disclosed that "[t]he Board is evaluating other options on the Group's future direction in the PRC including focusing on trading in food-related products". **Can management confirm that with the cessation of the PRC bakery operations, the group no longer has exposure to the largest and fast growing market of the 1.4 billion Chinese? Is the China market still a priority for the company?** With the cessation, the group's decades-long expansion to China enters a new chapter. **What were the lessons learnt by management regarding operating food businesses in China? When will management be ready with its strategy to carry out trading of food-related products in the PRC?**

b) **Gardenia Philippines Group:** As seen in the Business Overview (page 3 of the annual report), the Philippines has overtaken Singapore as the second largest contributor of revenue for the group. Due to the group's expansion in the Philippines, the level of non-current assets have increased by a quarter to $59.0 million with the addition of two new bakery plants. In the Operational Review (page 21), the group has said that it will aggressively expand and diversify its business to become a total food company. **Can management help shareholders understand its share of the Philippines market and what are the key factors that have contributed to the group's growth in the Philippines? What does it means to be a "total food company"?**

c) **Rivalea:** The proposed IPO for Rivalea was put on hold as the group realised the need to build up on its proprietary brands and cut the reliance on the commodity meat business, which accounted for nearly three quarters of the Pork revenue. **How does management intend to improve the brand positioning of its products? Has management explored the export market? Are the products able to fetch better pricing in the export markets?** After incurring Legal and Professional Fees of $4.1 million, the proposed listing has been put on hold. **Is the listing of Rivalea still on the cards? If so, when is the soonest the IPO process can be restarted?**

Q2. As seen in the Consolidated Income Statement (page 96), the group's amortisation and depreciation expense was $32.4 million in FY2017 (2016: $32.8 million). As at 31 December 2017, the group has Property, plant and equipment (PPE) amounting to $317.4 million, up from $289.6 million a year ago.

While the group is still in a strong financial position, both profits and net cash flow from operating activities were lower in FY2017. The purchase of property, plant and equipment and investment properties added up to $134.9 million in the past two financial years (2017: $60.7 million; 2016: $74.2 million).

In Note 33 (page 161 – Commitments), the group disclosed that a further $39.0 million for PPE and investment properties has been committed but not yet recognised in the financial statements.

a) **In evaluating the capital expenditure plans of the group, what is the investment hurdle rate used by management/board?**

The group has invested heavily to upgrade and increase the capacity of its plants, including a RM 175million (approximately $56 million) state-of-the-art bakery plant in Johor, Malaysia; a RM 184 million (approximately $61 million) plant in Bukit Kemuning; a Peso 980 million (approximately $26 million) plant in Mindanao, Southern Philippines; a Peso 1,880 million (approximately $51 million) plant in North Luzon, Northern Philippines; and a A$21 million (approximately $22 million) upgrading of Rivalea's Melbourne processing plant.

b) **With this round of heavy investment in capital expenditure, will the group's manufacturing be upgraded with the newest technologies? Is the group expected to slow down on its capital expenditure after this?**

c) **How much cost savings can be expected? What will be the targeted utilisation rate after these capital expenditure?**

Q3. As at 31 December 2017, the Board comprises 12 Directors, five of whom are independent Directors. On 21 January 2018, Ms Rachel Liem Yuan Fang was appointed to the board as an alternate director.

Guideline 2.5 of the 2012 Code of Corporate Governance calls for the board to "examine its size and, with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision making".

a) **Can the board elaborate further and justify why it is of the view that the current size of 12 directors and one alternate director is appropriate and effective?**

b) **Has the board evaluated itself in its ability to carry out effective decision-making?**

The nominating committee (NC) has recommended the appointment of Ms Rachel Liem Yuan Fang as an alternative director to Mr Andree Halim. The NC has disclosed that it had "reviewed the background and qualifications of Ms Rachel Liem".

c) **Can the NC elaborate further on its review of the background and qualifications of Ms Rachel Liem? What are the NC's views and conclusions to support its recommendation to the board to appoint Ms Rachel Liem as an alternate director?**