Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Envictus International Holdings Limited

Security: Envictus International Holdings Limited

Meeting details:
Date: 17 January 2019
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)

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1. On 21 November 2018, the company completed a renounceable non-underwritten rights issue of up to 113,534,799 new ordinary shares of the company at an issue price of S$0.16 for each rights share with up to 113,534,799 free detachable warrants on the basis of four rights shares for every five existing ordinary shares in the capital of the company held by entitled shareholders as at a books closure date on 29 October 2018, with one warrant for every one rights share subscribed by the shareholders of the Company.

The company received valid acceptances for 94.6 million rights shares with warrants or a valid acceptance rate of just 83.3%. Excess acceptances amounted to 9.36%, bringing the total acceptance rate to 92.66%.

The rights issue raised net proceeds of $16.53 million, short of the $17.92 million under the maximum subscription scenario.

(i) **Would the board help shareholders understand if the company's plans are affected by the lower amount raised?**

(ii) **Can the company elaborate further on the reasons that the expenses increased to "approximately S$0.30 million" versus the initial estimate of S$0.25 million?**

(iii) **Has the board reviewed the reasons for the lower than expected acceptance rates by shareholders?**

Despite the net proceeds of $16.53 million, the current market capitalisation of the company is just approximately $36.3 million. Prior to the announcement of the rights issue on 18 June 2018, the company had a market capitalisation of approximately $44 million (126 million shares, approximately $0.35 per share).

(iv) **Can the board help shareholders understand how the rights issue has generated shareholder value?**

(v) **Did the board evaluate and deliberate on the significant dilutive impact of the rights issue?**

2. Would the board/management provide shareholders with better clarity on the following operational and strategic matters? Specifically:

(i) **Texas Chicken (Malaysia):** In the Message from the Chairman, it was stated that Texas Chicken has continued to "*grow from strength to strength during the year under review, a clear testimony of the success of its strong branding*". With the opening of nine new outlets, the group now has 47 stores in Malaysia. **Would management elaborate further on the operational and financial performance of Texas Chicken in Malaysia? With segment loss from the Food service segment increasing from RM(13.5) million in FY2017 to RM(17.4) million in FY2018 (page 18), can management help shareholders how the Texas Chicken performed? Is the Malaysian operation profitable? Would the board consider reporting the performance of the three major**

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restaurant businesses individually to allow shareholders to understand the businesses better?

(ii) **Texas Chicken (Indonesia): Can the company help shareholders understand how it had structured the 10-year exclusive franchise agreement that allowed the group to develop and operate up to 80 Texas Chicken restaurants in Indonesia? What is the group's experience in operating F&B outlets in Indonesia? Does the group have the necessary human capital, experience, network and infrastructure to operate successfully in Indonesia? What is the total investment earmarked to support the growth of Texas Chicken in Indonesia?**

(iii) **Nutrition Division: What are management's strategies to reverse the sliding market share in the New Zealand and Australia? What are the growth opportunities in the nutrition division? With the nutrition division reporting losses in FY2017 and FY2018, what are the company's pro-active measures to improve the performance of the segment? Is it opportune for the board to carry out a strategic review of the nutrition division?**

(iv) **Depreciation:** As seen in the consolidated statement of cash flows, the group recognised RM26.2 million in depreciation of its property, plant and equipment in FY2018, up from RM22.8 million in FY2017. More than half of the depreciation is attributed to the Food services segment. **Has management evaluated the current cost structure and reviewed how it could reduce the depreciation costs?**

3. On 29 September 2017, the company announced that Mr Mah Weng Choong ("Mr Mah") would be re-designated from non-executive director to independent director with effect from 1 October 2017.

Mr Mah was first appointed to the board on 3 August 2004 as a non-executive director and was re-designated to the position of Group Chief Operating Officer on 13 May 2010, up to 30 June 2014.

With the completion of the acquisition of Motivage Sdn Bhd on 21 June 2018, the group entered into a consultancy agreement with Mr Mah to oversee and monitor the construction of a new factory in Pulau Indah for the manufacturing of sweetened condensed creamer and evaporated creamer, and the scope of work includes the procurement of raw materials and other business advisory services.

(i) **Can the nominating committee help shareholders understand if Mr Mah, as an independent director offering his consultancy services to the group, would be exposed to self-review risks?**

In addition, the company's three independent directors were all appointed to the board on 3 August 2004. As such, the directors, namely Mr John Lyn Hian Woon, Mr Teo Chee Seng and Mr Mah Weng Choong, have each served on the board for more than 14 years.

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In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code"). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

(ii) **Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**

(iii) **Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

(iv) **What is the search and nomination process for directors, especially independent directors? Can the company help shareholders recall if it has appointed any new independent directors (not considering the redesignation of Mr Mah from a non-executive director to an independent director) since its listing in 2004?**

(v) **Given that all three independent directors were first appointed to the board in 2004 (more than 14 years ago), what are the near term plans to refresh the membership of the board to comply with the new 2018 Code in good time?** This would avoid undue disruption and maintain institutional knowledge and continuity in the board.

A copy of the questions for the Annual Report for the financial year ended 30 September 2017 and 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: -----