



Securities Investors Association (Singapore)

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: admin@sias.org.sg www.sias.org.sg

UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: BreadTalk Group Limited

Security: BreadTalk Group Limited

Meeting details:

Date: 22 April 2019

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, restaurant, and food and beverage businesses in Singapore, Mainland China, Hong Kong, Taiwan, Southeast Asia, and internationally. The company manufactures and retails various food, bakery, and confectionery 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 bakes, manufactures, and deals in bread, flour, and biscuits; acquires and holds intellectual property rights; processes, distributes, and sells premium coffee beans and tea dust; and distributes related processing equipment. Further, it is involved in the wholesale of confectionery and bakery products; and food and beverage management activities. The company operates approximately 1,000 outlets in 16 countries under the BreadTalk, Toast Box, Bread Society, Food Republic, Thye Moh Chan, The Icing Room, So Ramen, Song Fa Bak Kut The, Din Tai Fung, Wu Pao Chun Bakery, Nayuki, and TaiGai brands. 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=CTN)

1. With the group's new vision of "Inspiring innovative F&B concepts; delighting the world everyday", management is looking increasingly to add new brands to grow the group's portfolio into a multi-product portfolio for broad-based sustainable growth in various key markets.

Some of the group's achievements include:

- Bringing two popular Chinese specialty tea brands Nayuki (奈雪) and TaiGai (台盖) to Singapore and Thailand
- Opening the first overseas Wu Pao Chun Bakery at Xintiandi Mall, Shanghai
- Opening the first Food Republic atrium at AEON Sen Sok Mall Cambodia
- Opening the Din Tai Fung restaurant in Covent Garden and a second outlet at Centre Point, London to follow
- Opening the first Song Fa restaurant at Jing An Kerry Centre, Shanghai

(i) As the group brings new brands to different regions of the world, how does the group manage the cross-cultural differences (and the occasional political sensitivities), different palate and eating habits?

(ii) In selecting and adding brands, how does the group spot 'winner'-brands early and establish a sustainable long term partnership? The group has done extremely well with its Din Tai Fung franchise, leading to a win-win outcome with the franchise owner and Mr Yang Chi-Hwa.

(iii) How can the group maintain its agility and respond quickly to consumers? For instance, has management considered if the tea/bubble-tea scene in Singapore oversaturated? How much market share can the group take and will it be able to grow the tea segment into a major contributor for the group?

(iv) How does management ensure that the brands it develops/acquires would perform strongly over time and not be a fad that fades away quickly?

2. As noted in the Group CEO's message, the weaker performance from the Bakery division was one of the factors that contributed to the 30% drop in group's net profit to \$15.2 million.

The profit after tax and minority interests (PATMI) for the bakery segment has slipped from \$9.4 million in FY2016 to \$8.0 in FY2017 and to just \$3.5 million in FY2018. In the past three years, the PATMI for Food Atrium and Restaurant has been strong.

FINANCIAL PERFORMANCE SUMMARY			
Financial year ended 31 December			
	2016	2017	2018
INCOME STATEMENT (S\$'000)			
Group Revenue	614,995	599,579	609,796
Bakery	306,864	297,020	282,004
Food Atrium	157,901	149,346	156,895
Restaurant	137,662	140,732	152,316
4orih	7,838	7,859	14,173
Group EBITDA	87,517	84,250	80,172
Bakery	29,181	23,023	22,514
Food Atrium	16,561	25,102	31,207
Restaurant	29,518	30,133	28,149
4orih	278	533	(2,894)
Group PATMI	11,436	21,680	15,191
Bakery	9,404	8,039	3,490
Food Atrium	(9,620)	6,557	12,295
Restaurant	12,816	13,272	12,378
4orih	(657)	(357)	(3,424)

(Source: Company annual report)

- (i) Would management help shareholders understand if the decline in the performance of the bakery business is structural in nature? Has competition eroded its edge?
- (ii) Has management reviewed if franchised stores or direct operated stores will be the better option in China? What is the new franchising strategy in China and how will the franchisees be affected?
- (iii) Other than the franchising model, what is the group doing to restore the profitability of the bakery segment?
- (iv) During management's due diligence, what is the size of the addressable market of the bakery business in India?

3. The attendance of directors at board and board committee meetings is shown in the table below:

ATTENDANCE AT BOARD AND BOARD COMMITTEES MEETINGS

Name of Director	Board	AC	NC	RC
Number of Meetings Held	4	4	1	2
ATTENDANCE				
Dr George Quek Meng Tong	4	4*	1*	2*
Ms Katherine Lee Lih Leng	4	4*	1*	2*
Mr Oh Eng Lock ⁽¹⁾	2	NA	NA	NA
Mr Ong Kian Min	4	4	1	2
Mr Chan Soo Sen	4	4	1	2
Dr Tan Khee Giap	4	4	1	2
Mr Paul Charles Kenny	3	NA	NA	NA

* By invitation

⁽¹⁾ Mr Oh Eng Lock has resigned as the Executive Director on 31 August 2018.

(Source: Company annual report)

It is observed that the executive directors (namely Dr George Quek Meng Tong, as executive chairman, and Ms Katherine Lee Lih Leng, as deputy chairman) were invited to all board committee meetings.

Dr George Quek Meng Tong is the spouse of Ms Katherine Lee Lih Leng. The two executive directors are the founders of the group and hold more than 52% of the company.

- (i) **Can the board help shareholders understand if it is the usual practice for the executive directors to attend board committee meetings?**
- (ii) **Were there specific agenda items or reasons to invite the executive directors to all the board committee meetings?**
- (iii) **What is the dynamics of the board committee meetings when the board committee members may be reviewing and discussing matters that are related to or affect the executive directors?** Such board committee meetings would have included agenda items on performance assessment and remuneration of the executive directors and on the audit/financial reporting of the group.
- (iv) **Do the invited directors also actively participate in the discussions during board committee meetings?**

4. At the company's annual general meeting scheduled to be held on 22 April 2019, Mr. Chan Soo Sen and Mr. Paul Charles Kenny would be retiring pursuant to Regulation 107 of the constitution of the company and would be seeking re-election.

As can be seen from the director's profile (page 19), Mr Chan was first appointed as a non-executive and independent director of the company on 30 April 2003. Accordingly, Mr Chan would have served on the board for approximately 16 years.

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.

The two other independent directors are Mr Ong Kian Min and Dr Tan Khee Giap. Mr Ong and Dr Tan were each first appointed on the board on 30 April 2003 and 1 October 2010 respectively.

Mr Ong Kian Min has served on the board for approximately 16 years as well.

- (i) Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**
- (ii) 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?**
- (iii) What is the search and nomination process for directors, especially independent directors?**
- (iv) How effective has the board been in providing entrepreneurial leadership to management? Would appointing candidates with a strong track record in F&B operations especially in Asia/China improve the quality of decision making and effectiveness of the board?**
- (v) What are the company's near term plans to refresh the membership of the board to comply with the new 2018 Code in good time? Doing so 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 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=BreadTalk%20Group%20Ltd&cid=4532>

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