



**Securities Investors Association (Singapore)**

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UEN No: S99SS0111B

GST Reg No: M90367530Y

**Issuer:** QAF Limited

**Security:** QAF Limited

**Meeting details:**

Date: 26 April 2019

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, engages in the manufacture and distribution of bread, bakery, and confectionery products in Australia, the Philippines, Singapore, Malaysia, and internationally. The company operates through four segments: Bakery, Primary Production, Trading and Logistics, and Investments and Others. It is also involved in the production, processing, and marketing of meat; and feedmilling and sale of feeds and related ingredients. In addition, the company trades in and distributes food and beverage products; and provides warehousing logistics services for food items. Further, it engages in the operation of supermarkets; leasing investment activities; and share trading and investment activities, as well as operates as a purchasing agent for bread, confectionery, and bakery products. The company was formerly known as Ben and Company Limited and changed its name to QAF Limited in 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](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=Q01))

1. As noted in the Chairman's statement, the bright spark in the group's portfolio was the Bakery segment, delivering an EBITDA of \$63 million, up from \$56 million a year ago. Following the completion of the major expansion of the bakery production capacity in Malaysia and the Philippines, the group expects the increased production capacity to contribute to the cashflow of the group in 2019 and onwards.

In Australia, the Primary Production segment (Rivalea) experienced a severe cyclical downturn arising from the general market oversupply while in Singapore, there was an unfortunate incident of an ammonia leak at Ben Foods which affected the distribution operations for almost six months and a transformer malfunction affected Gardenia Singapore.

- (i) With approximately \$200 million in expansionary capital expenditure spent in the Bakery segment since 2016, what is the expected maintenance capital expenditure going forward?**
- (ii) What were the utilisation rates of the new plants in FY2018?**
- (iii) Has the group been able to consolidate and further strengthen its market leading positions in the key markets of the Philippines and Malaysia?**
- (iv) How much improvement in profitability/EBITDA is management targeting in the next 2-3 years?** For reference, the bakery segment generated \$349 million in revenue (an increase of 4%) while improving its EBITDA by 13% (to \$49 million) and its EBITDA margin to 14% (from 13%).
- (v) During the proposed upgrade of Gardenia Singapore in the coming year, will the capacity and operations be adversely affected?**

2. The group has owned the Primary Production business since 2001 and is fully aware of its cyclical nature. Following the aborted IPO in 2017, the group started a strategic five-year plan to build up its proprietary brands rather than relying on the commodity meat business.

The company has disclosed that Rivalea has grown its external stockfeed business, its meat processing business via Diamond Valley Pork and its branded meat sales to mitigate the risks in the commodity meat sales.

- (i) Can management confirm that the listing plan for Rivalea has been put on hold indefinitely?**
- (ii) Other than mitigating the risks associated with the sale of commodity meat, the shift towards branded meat is said to improve margins as well. What is the targeted EBITDA margin to be achieved under the five-year plan?**
- (iii) Has management evaluated any opportunistic acquisitions to consolidate Rivalea's position, to improve its market access or to acquire strategic assets/capabilities?**

- (iv) Having incurred certain one-off legal and professional fees of \$4.1 million relating to the proposed listing, would the group require less time and incur lower costs to go to the market if/when it plans to list Rivalea again?**

3. In the Corporate governance report, the board acknowledged the need for progressive refreshing of the board. The company has been undertaking gradual and progressive refreshing of the board and its board committees (including its independent directors) since the second half of 2014.

Nevertheless, the board chairman, Mr Didi Dawis was appointed as a director of the company on 15 March 1988 and has held the position of chairman of the company since July 1990. Mr Didi Dawis has been on the board for more than 31 years and has held the role of the independent chairman for nearly 29 years. Mr Didi Dawis has a significant minority shareholding interest of 8.41% in the company.

Three of the other four independent directors were appointed in December 2014, February 2016 and January 2017.

The last independent director, Mr Triono Dawis, son of the independent chairman, was appointed on July 2014.

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 threshold to be deemed a “substantial shareholder” has been lowered to 5% of issued share capital, previously 10%.

- (i) Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**
- (ii) Can the nominating committee (NC) elaborate further on the succession planning for the board, including the board chairman, the managing director position and other key management positions?**

The NC has also stated that it typically identifies and searches for candidates through various contacts and recommendations (including proposals and recommendations of substantial shareholders and board members) and reviews the suitability of candidates with reference to the appropriate qualifications, expertise, skills, experience and characteristics of the candidates.

- (iii) Has the NC evaluated if the use of an independent search company for directors may enable the board to cast its net wider and further improve the diversity of the candidate pool?**



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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=QAF%20Ltd&cid=6315,4607>

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