Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Envictus International Holdings Limited

Stock code: BQD

Meeting details:
Date: 27 January 2022
Time: 11.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. As noted in the corporate profile, the group is a diversified food and beverage (F&B) player with businesses in Trading and Frozen Food (under Pok Brothers), Food Services (Texas Chicken and San Francisco Coffee), Food Processing (Bakery and Butchery) and Dairies. The group's products are traded under various brand names such as SuJohan, Gourmessa and Hearty Bake. Details of the different divisions can be found on pages 3 to 5 of the annual report and the key milestones on page 6.

In addition, it was noted that the group is helmed by "*a management team of industry veterans who possess a wide range of expertise in strategic planning, business development, operational and production skills*" (page 2).

In the message from the chairman, it was highlighted that management's combined effort had led to an improvement to the group's bottom line with a "*marked reduction in operating loss*" [emphasis added]. Loss after tax for the year amounted to RM(48.4) million, compared to RM(88.5) million in FY2020 for the continuing operations. The group has also discontinued the Texas Chicken business in Indonesia, Delicious restaurants, contract packing for dairy and juice-based drink business and the Nutrition Division (Naturalac Nutrition Limited in New Zealand) in the past 2-3 years.

The segment review by business divisions can be found on page 14 and reproduced below:

SEGMENTAL REVIEW BY BUSINESS DIVISIONS

BUSINESS SEGMENTS	FY2020 RM'000	FY2021 RM'000		FY2020 RM'000	FY2021 RM'000
REVENUE			**PROFIT/(LOSS) BEFORE INCOME TAX**		
Continuing operations			**Continuing operations**		
Food Services	216,811	218,832	Food Services	(18,816)	(15,060)
Trading and Frozen Foods	126,258	100,022	Trading and Frozen Foods	6,630	1,365
Food Processing	17,836	19,243	Food Processing	(57,918)	(11,966)
Dairies	38,544	43,928	Dairies	(4,297)	(10,349)
Unallocated	150	97	Unallocated	(12,668)	(11,336)
	399,599	382,122		(87,069)	(47,346)

(Adapted from company annual report; emphasis added)

Since FY2014, after the group sold its dairies and packaging businesses to Asahi Group, a special interim dividend of RM488 million or S$0.30 per share was paid out to shareholders in August 2014. No other dividend has been paid in the past 7 years.

As at 30 September 2014, shareholders' equity amounted to RM346.8 million. Since FY2014, shareholders' equity has decreased to RMB161.6 million as at 30 September 2021, even after a rights issue that raised RM51.3 million during FY2019.

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The profit/(loss) after tax from FY2015 to FY2021 are as follows:

- FY2015: RM(3.56) million
- FY2016: RM1.46 million
- FY2017: RM(53.5) million
- FY2018: RM(27.9) million
- FY2019: RM(36.9) million
- FY2020: RM(100.9) million
- FY2021: RM(48.4) million

The cumulative losses in the past 7 years amount to RM(269.7) million.

Also, from a net cash position of RM130.2 million as at 30 September 2014, the group's borrowings now amount to RM372.5 million as at 30 September 2021. This means that the group has invested over RM502 million in the past 7 years. The net debt to equity ratio now stands at 2.31 times.

(i) **Would the executive chairman be presenting to shareholders at the AGM the business model of "food services", "food processing" and "dairies" and to identify the key value drivers?**

Please provide operational and financial details for each major brand, including Texas Chicken, San Francisco Coffee, SuJOHAN, Gourmessa, Hearty Bake etc and include the roadmap and the major operational milestones that would allow each segment/brand to be profitable.

In addition, 2022 will mark the 10th anniversary of the signing of the exclusive International Multiple Unit Franchise and Development Agreement for the exclusive rights to develop and operate Texas Chicken restaurants in Malaysia and Brunei from 2013 to 2022.

(ii) **Please help shareholders understand the cumulative profits/losses from the Texas Chicken business (including the discontinued foray in Indonesia) since 2012. How much more capital has the group earmarked to support this business? Does the group have the necessary expertise to succeed in quick service restaurants?**

(iii) **Has the board, especially the independent directors, assessed the performance of management and held them accountable for the performance? Is the board satisfied with management's performance?**

(iv) **Can the company help shareholders understand how the "management team of industry veterans who possess a wide range of expertise in strategic planning, business development, operational and production skills" has leveraged their expertise to create and capture value for shareholders?**

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(v) **Did the board review if the necessary human resources are in place for the group company to meet its objectives?**

(vi) **Has the board reviewed its own performance, especially in the areas of providing entrepreneurial leadership and direction to enhance long-term value and returns for its shareholders? If so, is the board satisfied with its own performance?**

Q2. On 31 March 2021, the company announced that the group had entered into two option sale and purchase agreements ("SPAs") for the disposal of De-luxe's factory, machineries and equipment to Aryzta Food Solutions Malaysia Sdn Bhd ("Aryzta") for RM88 million. The initial plan was for the group to complete the sale from 2 years to 5 years after the signing of the agreement.

On 8 October 2021, Aryzta informed the company of its intention to bring forward the potential purchase of the property and assets (page 5).

(i) **Can management clarify if the manufacturing, operations, supply and purchase agreement (the "OEM Agreement") with Aryzta has proceeded since the signing of the SPA? If so, can management also confirm that the OEM agreement will end once the sale is executed?**

(ii) **What guidance has the board given to management with regard to the letter of intent issued by Aryzta to bring forward the purchase?**

(iii) **When can the sale be concluded at the earliest?**

(iv) **Can the company confirm that the group's bakery segment will be discontinued with the sale?**

Q3. At the annual general meeting scheduled to be held on 27 January 2022, the company is proposing to re-elect Mr Mah Weng Choong. Mr Mah Weng Choong was first appointed to the board on 3 August 2004 as a non-executive (non-independent) director.

The profile of the director can be found on page 29 of the annual report. Additional information on directors seeking re-election can be found on pages 155 to 159.

(i) **Would the director help shareholders understand his effectiveness as a director of the group, especially in enhancing long-term shareholder value in the past 7 years?**

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(ii) **Will the proposed re-election of Mr Mah Weng Choong delay the progressive renewal of the board (Principle 4 of the Code of Corporate Governance 2018)?**

Similarly, the executive chairman, Dato' Jaya J B Tan, is seeking his re-election. Dato' Jaya was re-designated from non-executive chairman to executive chairman on 3 November 2020. His profile can be found on page 27 of the annual report.

(iii) **Can Dato' Jaya J B Tan help shareholders understand his plans to turn around the group under his leadership? What improvements can shareholders expect in the next 7 years under his leadership?** As shown above, the group has accumulated losses of RM(269.7) million in the past 7 years since the sale of the dairies business to Asahi.

(iv) **Can the nominating committee also elaborate further on the board and key management personnel's succession plan? What is the depth of the group's leadership bench strength in the core functions, such as operations, marketing, logistics etc?**

It is also noted that the company has not complied with Provision 2.2 which requires independent directors to make up a majority of the board where the chairman is not independent. The board has only two independent directors and both have served on the board since 3 August 2004 for over 17 years. Mr Teo Chee Seng is also an independent director of Lasseters International Holdings Limited. The company has not adopted Provision 3.1 of the Code to have a separate appointment of chairman and chief executive officer. This was due to the company's preference to adopt a "single leadership structure" to ensure that the decision-making process of the group "would not be unnecessarily hindered" (page 36).

(v) **As the directors and the company have committed to maintain high standards of corporate governance in order to protect the interests of its shareholders as well as enhance corporate performance (page 31), would the company be progressively making changes to the board in the next 6-12 months that would include appointing an independent chairman, progressive renewal of long-tenured director and reconstituting a "fit-for-purpose" board with directors that possess deep QSR/F&B/operations experience?**

(vi) **Can the board also help shareholders understand the robustness of discussion in the board under a "single leadership structure"? How does the board avoid groupthink?** Five out of the six directors on the board have served for approximately 18-19 years.

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^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)