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Issuer: Envictus International Holdings Limited

Stock code: BQD

Meeting details:

Date: 26 Jan 2024

Time: 10.00 a.m.

Venue: Orchid Ballroom, Basement 1, Holiday Inn Singapore Orchard City Centre, 11 Cavenagh Road, Singapore 229616

Q1. After selling the dairies and packaging divisions to Asahi Group in 2014, the group returned to dairy manufacturing in 2018. In 2020, it divested its nutrition business and ceased operations of The Delicious Group. Over the last two years, the company further streamlined its portfolio by selling its frozen bakery business and divesting the food processing division (butchery).

As noted in the corporate profile, the group's current business divisions include Trading and Frozen Food, Food Services (Texas Chicken and San Francisco Coffee) and Dairies.

On 5 January 2024, the company issued an announcement on SGXNet regarding the notice of three consecutive years of losses¹. In fact, the financial highlights on page 21 of the annual report show that the company has been loss making for years. The group has been loss-making in eight of the past nine years, with losses totalling RM(310) million since FY2015.

FINANCIAL HIGHLIGHTS

	FY2019	FY2020	FY2021	FY2022	FY2023
KEY FINANCIAL INFORMATION					
Revenue (RM'000)					
- Continuing	420,788	399,599	382,122	515,582	566,074
- Discontinued	41,748	11,754	-	-	-
Total	462,536	411,353	382,122	515,582	566,074
Loss after income tax (RM'000)					
- Continuing	(26,449)	(88,542)*	(48,401)*	(6,387)^	(32,854)
- Discontinued	(10,402)	(12,397)	-	-	-
Total	(36,851)	(100,939)	(48,401)	(6,387)	(32,854)

* Includes the one-off impairment of property, plant and equipment of RM35.5 million.

Includes the one-off impairment of property, plant and equipment and intangible assets of RM3.7 million and a reversal of impairment of RM8.2 million.

^ Includes the one-time net gain on disposal of land and assets of RM16.8 million.

Revenue (RM'000)	FY2014	FY2015	FY2016	FY2017	FY2018
- Continuing@	306,789	327,357	362,674	410,331	422,605
- Discontinued@	540,891	-	-	-	-
Total	847,680	327,357	362,674	410,331	422,605
Profit/(Loss) after tax (RM'000)					
- Continuing@	(72,353)*	(3,562)	1,456	(53,541)*	(27,866)
- Discontinued@	610,021**	-	-	-	-
Total	537,668	(3,562)	1,456	(53,541)	(27,866)

(Adapted from company annual reports; emphasis added)

¹ <https://links.sgx.com/1.0.0/corporate-announcements/F9U4O8M23LVLBBKG/b7f6cbeffdac80fc4123a8b896b287f47c7ba3ef9b81cfaf8403115570408253>

Despite the increase in Food Services revenue to RM307 million in FY2023, the segment remains in the red.

	FY2023 RM'000	FY2022 RM'000		FY2023 RM'000	FY2022 RM'000
(A) BUSINESS SEGMENTS			(A) BUSINESS SEGMENTS		
REVENUE			(LOSS)/PROFIT BEFORE TAX		
Food Services	307,437	273,451	Food Services	(24,563)	(3,940)
Trading and Frozen Food	148,711	149,576	Trading and Frozen Food	12,958	13,753
Dairies	109,915	79,101	Dairies	(3,356)	(10,684)
Food Processing	11	13,454	Food Processing	(2,369)	(5,164)
	566,074	515,582	Unallocated	(11,945)	2,354
				(29,275)	(3,681)

(Adapted from company annual report; emphasis added)

Net assets value per share has dwindled from RM3.0 in FY2015 to RM0.5 in FY2023.

The company will mark its twentieth anniversary of its listing on SGX in December 2024.

- (i) **Can Mr Richard Lee Keng Chian, the new executive director and chief executive officer since 1 August 2023, provide shareholders with a comprehensive overview of his experience and track record within the "Quick Service Restaurant" and "Coffeehouse and Cafe" segments?** Shareholders would like to seek clarity on how his expertise aligns with the current challenges and objectives of the company.
- (ii) **Would the management team provide a clear and concise (re)statement of the top five priorities that will enhance the group's profitability in FY2024 and beyond?**
- (iii) **What are the roles and responsibilities of the executive chairman? How effectively has the executive chairman created and delivered value for shareholders over the past 10 years?**

The consolidated statement of comprehensive income for FY2023 is shown on page 66 of the annual report.

Envictus International Holdings Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2023

	Note	2023 RM'000	2022 RM'000
Revenue	23	566,074	515,582
Cost of goods sold		(345,889)	(323,425)
Gross profit		220,185	192,157
<i>Other item of income</i>			
Other operating income		5,850	29,978
<i>Other items of expense</i>			
Administrative expenses		(38,161)	(36,200)
Selling and marketing expenses		(172,363)	(142,322)
Warehouse and distribution expenses		(21,081)	(20,796)
(Loss allowance)/ Write back of allowance of receivables, net	31.1	(29)	746
Other operating expenses		(4,690)	(6,994)
Finance costs	25	(18,986)	(20,250)
Loss before income tax	24	(29,275)	(3,681)
Income tax expense	26	(3,579)	(2,706)
Loss for the financial year		(32,854)	(6,387)

(Source: company annual report)

- (iv) **Can management provide a breakdown of the major components of the cost of goods sold (RM345.9 million), administrative expenses (RM38.2 million) and selling and marketing expenses (RM172.4 million)?**

Q2. Certain subsidiaries of the group are also in breach of the financial covenants required by the banks as at 30 September 2023 (page 122).

- (i) **How is management actively addressing the breach of the financial covenant with the banks, and when does management expect the issue to be resolved?**
- (ii) **Separately, has the board set a limit on the group's gearing ratio?**
- (iii) **Will the board proactively deliberate on and formalise a dividend policy?**

Q3. The company's internal audit function is outsourced to Smart Focus (page 50). As stated in the corporate governance report, the internal audit work carried out in FY2023 was guided by the International Standards for the Professional Practice of Internal Auditing laid down in the International Professional Practices Framework issued by the Institute of Internal Auditors.

- (i) **Could the audit committee (AC) provide shareholders with a more comprehensive understanding of the internal auditor's profile, including details about the size, experience, and other relevant attributes of the internal audit team?**
- (ii) **How was the internal auditor selected by the AC?**
- (iii) **Can the AC clarify its role in determining the scope of the internal audit?**
- (iv) **What were the scope, key findings and recommendations by the internal auditor for FY2023?**
- (v) **Can the AC confirm that all the business segments were included in the internal audit?**
- (vi) **What is the level of oversight by the AC on the actions taken by management to follow up on the recommendations?**

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

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