



Securities Investors Association (Singapore)

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GST Reg No: M90367530Y

Issuer: ST Group Food Industries Holdings Limited

Stock code: DRX

Meeting details:

Date: 31 October 2022

Time: 1.00 p.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.

Q1. Despite the pandemic, the group has grown its network to 148 outlets (as at 31 July 2022) from 113 outlets in 2019 when the company was listed. The group's network comprises 50 group-owned outlets and 98 outlets owned by its sub-franchisees and sub-licensees across its key geographical markets. The group continued to expand its network of sub-franchised and sub-licensed outlets, which increased from 82 outlets as at 30 June 2021 to 98 outlets as at 30 June 2022.

- (i) **How does the group identify new sub-franchisees and sub-licensees to grow its network? What are the criteria used by management to select its sub-franchisees and sub-licensees to ensure that the sub-franchisees and sub-licensees perform?**
- (ii) **What is the typical duration of a sub-franchise and sub-license agreement?**

The group disposed of its loss-making operations in Malaysia and acquired (a) an additional 40% stake in the Papparich Australia group of companies and (b) the Papparich trademarks for Australia and New Zealand. The cash consideration for the additional 40% was A\$1,393,440. The group now holds 90% of Papparich Australia Pty Ltd. ("PAPL"). A charge to the company's equity of A\$415,811 was recognised as the premium paid for acquisition of non-controlling interest.

Revenue for PAPL in 2022 had in fact decreased to A\$8.9 million from A\$10.5 million a year ago. Loss for the year was A\$(1.78) million although A\$(1.0) million was allocated to the non-controlling interest.

- (iii) **Can management elaborate further on the specific challenges faced by PAPL? What are management's plans to improve the operational and financial performance of PAPL?**

The group continues to be on the lookout for complementary brands to build up its portfolio and enhance its market position as one of the leading F&B players in Australia, New Zealand and the UK.

- (iv) **How is management acquiring new brands to build up the group's portfolio? What is the profile of a brand that would be complementary to the group?**

Q2. As shown in the consolidated statement of comprehensive income (page 62), revenue increased by 4.7% but staff costs increased by 16.8% to \$18.3 million. On page 11, it was disclosed that “*staff costs normalised in FY2022 following rationalisation exercises carried out in FY2021*” (page 11).

However, as a percentage of revenue, staff costs accounted for 38.9% in FY2022 (FY2021: 34.9%). The trend of increasing staff costs as a percentage of revenue is shown below:

FY2018 – 30.6%
FY2019 – 31.3%
FY2020 (restated) – 39.3%
FY2021 – 34.9%
FY2022 – 38.9%

- (i) **Can management help shareholders better understand the reasons for the increase in staff costs (as a percentage of revenue)?**
- (ii) **What are the challenges faced by management in terms of manpower shortage? Which cities have fared the worst? Have manpower shortages impacted the operations, for example, shorter opening hours or reduced capacity?**
- (iii) **How much automation can be/has been introduced to the group’s workflow to raise productivity as a means to mitigate the manpower issue?**
- (iv) **In addition, with more sub-franchised and sub-licensed outlets, would the company be benefitting from greater operational leverage and thus lower staff costs as a percentage of revenue? What guidance/target has the board set for the group in terms of operational and financial performance?**
- (v) Separately, while the company had paid an interim dividend of A\$0.0017 per ordinary share on 11 March 2022, the board did not recommend a final dividend for FY2022 as the group plans to “*conserve cash for future outlet expansions*” (page 45). However, it is noted that the company invested \$200,000 in a private equity (PE) fund that focuses on investments in the construction industry (page 128 – Note 22 Financial assets at fair value through profit or loss). **Can the board help shareholders understand if it had approved the investment in the PE fund? Is the investment in a PE fund that focuses on the construction industry aligned with the group’s strategic plans? What is the total commitment to the PE fund?**
- (vi) **Given also that the company has sold treasury shares and bought back shares (sometimes just one day apart, such as on 24 & 25 February 2022), would the independent directors be reviewing the group’s capital management framework and dividend policy? Would the dealing in the company’s securities by the company itself be considered short-term?**

Q3. On 14 October 2022, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 30 June 2022 following the finalisation of audit.

The announcement on the unaudited financial results was first released via SGXNet on 25 August 2022. The announcement of material differences came more 7 weeks months after the company first announced the unaudited financial statements.

Following the finalisation of audit, the loss of \$(339,115) (unaudited) turned into a bigger loss of \$(919,713) (audited). Non-current lease liabilities increased from \$16.3 million to \$20.0 million, an increase of \$3.74 million.

The company's announcement can be found here:

https://links.sgx.com/FileOpen/ST%20Group_FY22%20Material%20Variances_Final.ashx?App=Announcement&FileID=734446

Some of the reasons for the changes include:

- additional impairment losses on the right-of-use assets of non-performing outlets in view of recent unfavourable global economic outlook
- reclassification of capital reserves relating to NNCFI disposal group of A\$0.4 million to retained earnings
- recognition of lease extension of 120 and 130 Turner Street, Port Melbourne of A\$3.7 million
- reclassification of non-cash rent receivable in relation to a new sub-lease entered into during FY2022
- reclassification of a cash deposit payment for leasing of a vehicle from "Lease incentives received" to "Upfront payment for right-of-use assets"
- reclassification of a cash deposit payment

- (i) **Can the audit committee help shareholders better understand the underlying reasons for the material variances, such as the omission of the lease extension that happened in March 2022?**
- (ii) **What are the challenges faced by the company's finance and accounting staff in meeting the Singapore Financial Reporting Standards (International) (SFRS(I))?**
- (iii) **What role did the AC play in the preparation of the financial statements? Was it adequate?**
- (iv) **What changes have been made/will be made to the group's financial reporting systems and processes?**

^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](http://www.sias.org.sg)

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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>)