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: Tung Lok Restaurants (2000) Ltd

Stock code: 540

Meeting details:
Date: 27 July 2022
Time: 10.30 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 message to shareholders from the chairman and the president/chief executive officer, with more than 2 years since the COVID-19 outbreak first began, the impact of the pandemic is still felt by businesses and economies all over the world.

The first half of FY22 was extremely challenging for the group as safe management measures were tightened in view of the spike in COVID-19 cases.

Since the beginning of Year 2021, the group has closed 8 outlets (with 6 being closed in FY22) which were significantly affected by the pandemic. The closures were made to better rationalise and streamline the group's resources as well as manage the group's business costs and optimise operational efficiency amid restrictions and other challenges which impacted revenue generation during the pandemic period.

A detailed review of the group's financial review and operations can be found on pages 13 and 14 of the annual report.

Despite recording a $1.6 million profit in the second half of FY22, the group recognised a loss of $(1.8) million for FY22 as it was unable to recover from the loss of $(3.4) million suffered in the first half of FY22. Profit for FY21 was $1.0 million.

(i) **Can management help shareholders better understand the situation on the ground since the government had removed most of the safe management measures at the end of April 2022, perhaps with the exception of catering for large events (>500 pax)?**

(ii) **Does management see demand for food delivery and takeaway decreasing significantly as safe management measures are scaled back/removed?**

(iii) **How is management dealing with manpower shortages?**

(iv) **Can management showcase some of the major improvements in procurement, processes and central kitchen functions? How much efficiency/cost savings have been achieved?**

(v) **Is management satisfied with the market penetration of the group's ready-to-eat products that are marketed under Hong Fiesta?**

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Q2. As shown in Note 31 (page 128; Capital risk management policies and objectives), total borrowings including lease liabilities increased to $20.85 million. Net debt amounted to $7.97 million as the group has cash and cash equivalents of $12.88 million.

(i) **What are the projected capital requirements in the next 18 months?**

(ii) **What are the cash outlay and total capital investment required to open a typical outlet?**

The group's directly-owned outlets increased from 23 to 25 in the past year. At the outset of the pandemic (March 2020), the group had 26 outlets that were directly owned.

(iii) **What is the pace of the group's expansion given the expected recovery although there are still strong headwinds in the operating environment?**

With total equity of $10.2 million, the debt-to-adjusted capital ratio increased significantly from 37% to 78% as at 31 March 2022. The group's policy is to keep the debt-to-adjusted capital ratio below 100%.

(iv) **Has the board reviewed the group's capital structure? With the group's debt-to-adjusted capital ratio approaching the group's mandated upper limit, what are management's plans to reduce its gearing? Does the group need to raise funds to strengthen its balance sheet?**

In FY2021 and FY2022, the group paid out $390,000 (Club Chinois Pte Ltd and Tung Lok Arena Pte Ltd) and $240,000 (Club Chinois Pte Ltd) in dividends to non-controlling interests in subsidiaries respectively. At the group level, the accumulated losses are $(16.7) million, with equity amounting to $10.2 million. The company last declared a dividend to shareholders in August 2011 for $0.005 per share.

(v) **Has the board reviewed the group's profitability and its ability to generate long-term value for shareholders, including the ability to create sustainable profits and generate the needed cash flow to deliver returns to its capital providers in the form of dividends?**

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Q3. On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning[1].

At the company's annual general meeting scheduled to be held on 27 July 2022, the company is seeking shareholders' two-tier approval for the continued appointment of Mr Chee Wai Pong as an independent director. The director was first appointed on 30 September 2013.

(i) **Can the board help shareholders understand if it had considered the guidance given by SGX RegCo on the selective use of the two-tier rule to promote renewal and board succession?**

(ii) **If so, what are the extenuating circumstances, if any, that led to the board/nominating committee (NC) to propose Mr Chee Wai Pong's continued appointment as an independent director?**

In fact, of the four directors deemed independent who are currently in the board, two of them, including the lead independent director, have already served on the board for more than 9 years. Dr Tan Eng Liang, also the lead independent director, and Dr Ker Sin Tze were appointed on 1 March 2001. Both Dr Tan and Dr Ker have each served on the board for more than 21 years.

(iii) **Should Dr Tan Eng Liang, the lead independent director, lead by example by setting the tone with regard to capping the tenure of independent directors?**

As noted earlier, the group has accumulated losses of $(16.7) million as at 31 March 2022.

(iv) **Can Dr Tan Eng Liang and Dr Ker Sin Tze help shareholders better understand their contributions to the group and their effectiveness as directors to safeguard shareholders' interests and to create value for shareholders in the past 21 years?**

(v) **How do the two abovementioned long tenured directors avoid groupthink given that, between the two of them and the President/Chief Executive Officer, i.e., Mr Andrew Tjioe, they have approximately 64 years of cumulative experience serving together on the board?**

[1] https://www.businesstimes.com.sg/companies-markets/answer-my-question-before-i-vote-sgx-regco-sets-new-timelines-for-companies-to

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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)