



ENVICTUS INTERNATIONAL HOLDINGS LIMITED

(Company Registration No: 200313131Z)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2023

The Board of Directors ("Board") of Envictus International Holdings Limited (the "**Company**") refers to the queries raised by the Securities Investors Association (Singapore) ("**SIAS**") on 17 June 2022 on the Company's Annual Report 2023.

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.

	FY2014	FY2015	FY2016	FY2017	FY2018
Revenue (RM'000)					
- 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)

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.

Company's response

Mr. Richard Lee Keng Chian previously owned a chocolate manufacturing company and had been leading the strategy development and commercial performance of the said business. He brings extensive expertise in the cocoa industry, having also served as the business development director for a prominent chocolate manufacturer in Asia and as the country representative for a leading Japanese F&B business in Myanmar. With his substantial network of supplier contacts within the food industry, the Group is able to leverage on the valuable connections and also tap on his leadership and entrepreneurial skills.

- (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?**

Company's response

- a) The Group has undertaken proactive measures centered on identifying opportunities for cost reduction and optimization such as the implementation of price adjustments, hedging strategy and supply management to minimize costs to operate with efficiency to navigate the challenges faced by the operating entities;
- b) To alleviate margin compression for Texas Chicken, the Management has implemented sales strategies and proactive cost reduction measures, including improving operational efficiency in labour costs. This encompasses active cost management, re-evaluation of staff incentive, effective use of marketing funds and reduction of foreign labour.
- c) Among the strategies that SFCoffee has implemented are menu revamp that includes a balanced mix of non-coffee drinks, reduction of labour per store, streamlining supply chain and consolidating operational costs.

- d) Continual efforts are underway for Pok Brothers to increase E-commerce sales by leveraging on digital marketing to drive traffic flow to its online store, coupled with the implementation of loyalty programme to stimulate consumer spending and re-evaluation and acquisition of new suppliers and agencies.
- e) To address the price volatility of commodities, the Dairies Division will source for alternative suppliers offering more competitive prices, controlling the commodities usage, effective management of raw materials and expanding the sales footprint in the country.

(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?

Company's response

Dato' Jaya J B Tan, was re-designated from Non-Executive Chairman to Executive Chairman on 3 November 2020. Since his re-designation, he has embarked on the divestment of loss-making operating units to reduce the losses and also monetised the assets which have appreciated in market value.

Dato' Jaya J B Tan, is responsible for the effective workings of the Board and promoting high standards of corporate governance and as the Executive Chairman, he has a role in leading the development of the Group's future strategy by identifying and assessing risks and opportunities for the growth of its business and reviewing the performances of its existing businesses. Dato' Jaya has been integral in securing financing and liquidity for the Group.

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
Other item of income			
Other operating income		5,850	29,978
Other items of expense			
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)?

Company's response

Breakdown for cost of goods sold:

	RM
Direct Material	341,154,804
Direct Labour	141,657
Factory Overhead - Fixed	1,619,926
Factory Overhead - Variable	2,972,837
	<u>345,889,224</u>

Direct Material – Comprise of food, beverages, frozen and trading products. Main products are chicken (Texas Chicken), Coffee (San Francisco Coffee), Sugar (Dairies Marketing) Meat, Seafood and Ingredients (Pok Brothers).

Fixed Overhead – Consists of depreciation, maintenance and staff cost.

Variable Overhead – Consists of utilities, scrap disposal, consumables and others

Breakdown for administrative expenses:

ADMINISTRATIVE EXPENSES	RM
Staff costs	22,465,540
Depreciation & amortisation	5,943,981
Legal & professional fee	1,211,443
Securities Fees	560,619
Audit fee	561,489
Bank charges	564,853
Subscription fee	320,183
Insurance	534,805
Utilities	437,248
Others (printing, stationary, rental, licence and permits, communication, repair and maintenance)	5,561,482
	<u>38,161,643</u>

Breakdown of selling and marketing expenses:

SELLING AND MARKETING EXPENSES	RM
Staff costs	56,199,520
Depreciation & amortisation	33,833,387
Royalty Fees/Advertising	24,645,739
Utilities	16,002,755
Delivery commission	12,976,608
Rental	10,341,923
Repair and maintenance	6,355,816
Others (cleaning, transport, insurance and others)	12,006,859
	<u>172,362,608</u>

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?**

Company's response

Due to the improved financial performance in the new financial year, the banks have given us indulgence for the breach of financial covenant.

- (ii) **Separately, has the board set a limit on the group's gearing ratio?**

Company's response

The Board has not set a limit on the group's gearing ratio.

- (iii) **Will the board proactively deliberate on and formalise a dividend policy?**

Company's response

The Board will proactively deliberate and to formalise a dividend policy when the Group is in a profitable position.

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?**

Company's response

The AC recognises that an independent and adequately resourced internal audit function is essential to assist in obtaining the assurance it requires regarding the effectiveness and adequacy of the Group's internal control system. Accordingly, the Company's internal audit function has been outsourced to an independent professional firm, Smart Focus to assist the AC in discharging its duties and responsibilities in respect of reviewing and assessing the adequacy and effectiveness of the Group's risk management and internal control systems. The Internal Auditors report directly to the AC, which in turn reports to the Board. In performing their duties, the Internal Auditors have free and unfettered access to information and to meet with any of the department heads or persons in charge. The internal audit function of the Group is effective and remains independent all the time. The internal audit function is set out in the Statement of Risk Management and Internal Control and Audit Committee Report and is disclosed in the Annual Report 2023. The Internal Auditors carried out the internal audit function based on the internal audit plan approved by the AC. The audit findings together with management's response and proposed action plans have been reviewed by AC at its scheduled meetings. In addition, follow-up reviews were also conducted to ensure that the recommendations for improvement have been implemented by Management on a timely basis. The Internal Auditors communicate regularly and report directly to the AC on their activities based on the approved Annual Internal Audit Plan to ensure their independent status within the Group. The Internal Auditors are also invited to attend the meetings of the AC and Board, whenever required.

For all the assignments during the year under review. The Internal Auditors are free from any relationship or conflicts of interest which could impair the objectivity and independence of the Internal Audit during the financial review period. Internal Audit ("IA") Function provides an independent assessment of the effectiveness and efficiency of internal controls utilising a global audit methodology and tool. IA adopts the International Standards for the

Professional Practice of Internal Auditing of The Institute of Internal Auditors, the definition of Internal Auditing, Code of Ethics, Practices and Framework in order to ensure standardisation and consistency in providing assurance services. The information on internal audit functions is disclosed in the Annual Report 2023.

(ii) How was the internal auditor selected by the AC?

Company's response

It was selected based on the proposals sent by several companies.

(iii) Can the AC clarify its role in determining the scope of the internal audit?

Company's response

It is based on risk-based audit cycle where the AC members review the Audit Strategic Plan and comment on the critical areas which need to be focused.

(iv) What were the scope, key findings and recommendations by the internal auditor for FY2023?

Company's response

Scope of Internal Audit: -

The primary focus and discoveries encompassed both strategic and operational aspects, including Manufacturing/Outlets management, Branches review, Cost control, Marketing strategy, wastage management, Authorized Authority level, Slow-moving stock, Succession Plan, IT Management, and renovation management, among others. The identified issues are addressed either during the audit process or within the specified timeframe.

Entities Subjected to Audit:

- 1) Pok Brothers
- 2) Envictus Dairies and Marketing
- 3) Texas Chicken
- 4) San Francisco Coffee

Audited Departments:

- Human Resources
- Finance
- Purchasing
- Sales and Marketing
- Logistics
- Operations
- Warehouse

Key Audit Issues Highlighted:

- Succession Plan
- Loss of customers
- High Debtors Aging Summary
- Weaknesses in Credit Application
- Initiatives for Credit Control/Outstanding Payments Follow-up
- Weakness in Purchase Order
- Weaknesses in Logistics Management

Summary of Recommendations:

To address the identified issues and establish a comprehensive compliance program. Furthermore, it is recommended to discuss these issues during the monthly management meeting with the respective individuals in charge.

- (v) **Can the AC confirm that all the business segments were included in the internal audit?**

Company's response

The AC confirms that all 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?**

Company's response

The AC would be given copies of the internal audit report which contained findings and actions to be taken by the management of the respective operating entities. For follow-up recommendations, the AC would receive updated internal reports of actions taken by the persons in charge at the operating entities. When required, the AC could seek clarifications from either of the Chief Executive Officer or Chief Operating Officer or Acting Chief Financial Officer.

ENVICTUS INTERNATIONAL HOLDINGS LIMITED

DATO' JAYA J B TAN
Executive Chairman

19 January 2024