



ENVICTUS INTERNATIONAL HOLDINGS LIMITED

(Company Registration No: 200313131Z)

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED HALF YEAR RESULTS FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2021

The Board of Directors (“Board”) of Envictus International Holdings Limited (the “**Company**”) refers to the queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 15 July 2021 in relation to the Company’s unaudited half year results for the financial period ended 31 March 2021 which was announced on 12 May 2021.

Question (a)

Please provide information on the Group’s inventory turnover days.

Company’s response to Question (a)

Group’s inventory turnover days as at 31 March 2021:

Division	Turnover days
Food Services	30
Trading and Frozen Food	55
Food Processing	41
Dairies	39

Question (b)

Please disclose:

- (i) A breakdown of the Group’s receivables;
- (ii) Aging of the Group’s trade receivables;
- (iii) Details of the Group’s underlying transactions of its other receivables and the terms of the transactions;
- (iv) The Company’s plans to recover the trade and other receivables;
- (v) Whether they are major customer(s) and whether the Company continues to transact with these customer(s);
- (vi) How long are the debts outstanding and in which period the sales were reported;
- (vii) What were the actions taken to recover the trade and other receivables;
- (viii) The Board’s opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables; and
- (ix) The Board’s assessment of the recoverability of the remaining trade and other receivables.

Company’s response to Question (b):

- (i) Breakdown of the Group’s receivables as at 31 March 2021:

	RM’000
Trade receivables	24,586
Other receivables	21,354
Total	45,940

(ii) Aging of the Group's trade receivables:

	RM'000
Current	16,137
Past due 1 day to 3 months	7,731
Past due over 3 to 6 months	518
Past due over 6 to 12 months	103
Past due over 12 months	97
Total	24,586

(iii) Details of the Group's underlying transactions of its other receivables and the terms of the transactions:

	RM'000
Deposits for rental, utilities and others	11,974
Advance payments to suppliers (Note 1)	4,799
Prepayment for hire purchase (Note 2)	1,696
Prepayments (Note 3)	2,421
Others	464
Total	21,354

Note 1: Advance payments made to foreign suppliers of RM4.8 million upon purchase orders confirmed. However, the goods have not been received yet due to custom clearance process.

Note 2: Prepayment for hire purchase of RM1.7 million relates to prepaid instalments made for the new application of hire purchase facilities for the opening of new restaurant outlets. This prepayment will be offset against the instalment payments by end of the hire purchase contract.

Note 3: Prepayments of RM2.4 million were mainly comprised prepayment made for insurance, rental, utilities and other operating expenses.

- (iv) The Group plans to recover the overdue trade receivables through the following actions:
- (a) Contacting the customers regularly to follow up on the payment;
 - (b) Negotiating a repayment plan with customers for the overdue debts;
 - (c) Reducing the sales order / blocking order for the overdue customers; and
 - (d) Lastly, seeking legal advice on possible recourse action to recover the debts.
- (v) The Group will only continue to transact with these overdue customers after management has performed satisfactory credit evaluation of their financial conditions and obtain sufficient collateral where appropriate to reduce the risk of financial loss from defaults.
- (vi) The debts outstanding are mostly within one year as stipulated in table (ii) above.
- (vii) Refer to (iv) above for the Group's actions to recover the trade receivables.
- (viii) The Board is of the opinion that the methodologies used to determine the value of the impairment of the trade and other receivables are in compliance with the accounting standard SFRS(I) 9 as adopted in the previous financial year.
- (ix) The Group measure the loss allowance for trade receivables at an amount equal to lifetime expected credit losses ("ECL"). The ECL on trade receivables, excluding trade receivables determined to be credit impaired, are determined based on historical credit loss rate and historical payment pattern, adjusted for current conditions and forecast of future economic conditions that may affect the ability of the customer to settle the trade receivables at the reporting date.

Question (c):

Please disclose a breakdown of trade and other payables amounting to RM91,817,000 as at 31 March 2021. For other payables, please disclose the identity of the counterparties, the aging and nature of these other payables.

Company's response to Question (c):

(i) Breakdown of trade and other payables as at 31 March 2021:

	RM'000
Trade payables	31,026
Other payables	60,791
Total	91,817

(ii) Breakdown of other payables and aging as follow:

	Current	Past due				Total
		1 day to 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 12 months	
		RM'000	RM'000	RM'000	RM'000	
Contractors for new outlets	596	3,245	724	1,387	8,473	14,425
Contractors for new factories	57	647	1,114	-	8,796*	10,614
Rental and utilities	863	7,354	1,193	629	-	10,039
Repair and maintenance	386	758	860	-	-	2,004
Accruals for purchases	4,694	-	-	-	-	4,694
Accruals for staff costs	2,774	575	-	-	-	3,349
Accruals for advertising and promotion	1,408	763	591	-	-	2,762
Accruals for royalty fee	2,070	-	-	-	-	2,070
Accruals for sales and service tax	2,094	-	-	-	-	2,094
Accruals for directors' fee						
-FY2020 (paid)	494	-	-	-	-	494
- FY2021	529	-	-	-	-	529
Refundable deposits	527	-	-	-	-	527
Amount due to a director	1,517	-	-	-	-	1,517
Other operating expenses	3,328	1,794	369	67	115	5,673
Total	21,337	15,136	4,851	2,083	17,384	60,791

* The amount has been reduced to RM4.8 million in June 2021.

Question (d):

Given the Group's significant current liabilities of RM168,175,000, non-current liabilities of RM321,393,000 and cash and bank balance of only RM15,774,000 and noting that losses of RM24,559,000 were incurred for the 6 months ended 31 March 2021, please disclose the Board's assessment:

- (i) Whether the Group's current assets are adequate to meet the Group's short term liabilities of RM168,175,000, including its bases of assessment; and
- (ii) How the Group intends to fulfil its significant payment obligations in the next 12 months. Where the Group has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Group is on track to fulfilling these obligations.

Company's response to Question (d):

- (i) Although the Group's short-term liabilities have exceeded the Group's current assets, the management believes that the Group is able to meet the short-term debts obligations by monitoring its liquidity position and taking the following actions:
 - (a) The Group will continue to carry out cost-saving initiatives to manage costs and preserve cash. For example, the Group has obtained rental rebates from the landlords and payroll subsidy from the government of RM2.3 million and RM1.1 million respectively during the pandemic period, which greatly reduce the operating expenses;
 - (b) On 31 March 2021, the Group has entered into a manufacturing, operations, supply and purchase agreement ("OEM") with its biggest competitor, Aryzta Food Solutions Malaysia Sdn Bhd ("Aryzta") where it will be manufacturing the pre frozen products in accordance to specification and requirements by Aryzta or its group of companies on the terms and conditions of the OEM agreement. The OEM sales with Aryzta has commenced progressively in July 2021 which will help to improve the Group's operating cash flow;
 - (c) The Group manages inventories, trade and other receivables, trade and other payables to optimise cash flow and liquidity;
 - (d) The Group is actively engaging with its bankers, trade and other creditors to extend or restructure the existing credit terms;
 - (e) Propose monetisation of non-core assets of the Group. On 31 March 2021, the Group has entered into the following conditional option sale and purchase agreement (SPA) with Aryzta for the proposed sale of:
 - (i) Leasehold land located at Pulau Indah ("Pulau Indah Land") for a consideration of RM12 million, which 10% deposit of RM840,000 net of RPGT has been received in June 2021; and
 - (ii) A single storey factory with all the manufacturing equipment therein and two storey office with all the fixtures and fittings erected thereon at the Pulau Indah Land for a consideration of RM76 million.
 - (f) During the pandemic period, the Group has reduced the pace of expansion of its fast food and coffee chain businesses, and have implemented various cost control measures in order to conserve cash;
 - (g) The Group has adequate credit facilities (including the drawing of existing unutilised facilities and obtaining new credit facilities) from bankers and other financial institutions to fund its working capital and capital expenditure;
 - (h) The Group has obtained an extension of tenure for 3 years for a term loan of RM7.6 million from the financial institution. The Group is also in the process of applying up to six months moratorium and reduction in monthly instalment for certain bank borrowings due to the Covid-19 outbreak and the various movement control orders implemented by the government; and
 - (i) As and when required, the Executive Chairman and the Group Adviser have been funding any urgent shortfall in the working capital of the Group. Up to 22 July 2021, RM7.55 million have been advanced to the Group.

- (ii) The Group expects to fulfil its significant payment obligations in the next 12 months by actively managing its operating cash flows and implementing the plans as stated under d (i) above. The Group has the following available unutilised credit facilities as at 31 March 2021 which it can draw upon when required to fund the working capital and capital expenditure.

	RM'000
Banker's acceptance	43,795
Term loans	19,373
Bank overdraft	2,985
Total	66,153

Question (e):

As at 31 March 2021, the Group has net current liabilities of RM72,603,000 with cash and cash equivalents of RM15,774,000. Please disclose the pro-active actions which management plans to take to ensure that the Group's financial position remains strong.

- (i) Please assess the Group's ability to operate as a going concern.
- (ii) Please assess the Group's ability to meet its debt covenants (if any).
- (iii) Please assess the Group's ability to meet its short-term obligations when they fall due.

Company's response to Question (e):

Based on the Group's action plans as specified in the response to Question (d) above, the management believes that the Group is able to operate as a going concern and will has sufficient liquidity for its working capital and financial obligations as and when they fall due or rescheduled.

A subsidiary company was unable to maintain the shareholders' fund as required by its banker principally due to the impairment of assets of RM35.5 million in the previous financial year. The management is now actively engaging with its bankers to resolve this matter as it believes that there will be partial reversal of impairment due to proposed disposal of business to Aryzta as per SPA signed on 31 March 2021, which will improve the shareholders' fund.

By Order of the Board

ENVICTUS INTERNATIONAL HOLDINGS LIMITED

DATO' JAYA J B TAN
Executive Chairman

22 July 2021