



PURE ENJOYMENT  
GOODNESS

# QUESTIONS FROM MSWG

## QUESTION 1

As calculated based on figures stated on page 186 of AR2019, total export sales outside the Malaysia and Thailand home markets have declined by 11.6% in FY19 to RM602.19 million compared to RM673.53 million in the year before.

How does the Company plan to achieve the RM800 million export sales target by 2020 (page 52 of AR 2019), which is a tall order of 33% increase compared to the RM602.19 million achieved in FY19?

## QUESTION 2

Export sales of F&B Thailand to Cambodia experienced a huge drop of 49% (RM90.62 million) to RM94.11 million in FY19 from RM184.8 million in FY18 (page 186 of AR2019). What caused the decline and how does the Company plan to stem the decline?



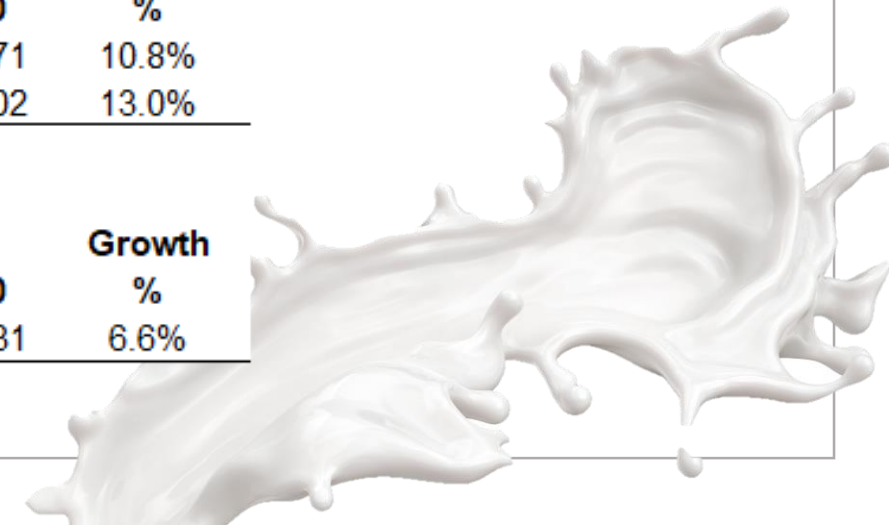
## RESPONSE TO QUESTION 1 & 2

*Distributor revenue for the Cambodia market was disclosed under Thailand in FY2019 based on the distributor billing address which was in Thailand. This distributor revenue was disclosed under Cambodia in last year. For a like-for-like comparison, if the revenue is included in Cambodia for both years, the growth in revenue in Cambodia market would be 13.0%. Likewise, growth in total export revenue outside Malaysia and Thailand in FY2019 would be 6.6%.*

*Correspondingly, the growth rate to achieve export revenue of RM800 million is 11.5%. We remain committed to building Exports as our third business pillar and achieving target Group export sales of RM800 million by 2020. Our plan for Exports is disclosed under page 52 of the Annual Report.*

### Disaggregation of Revenue (Restated for comparison) (Note 20(A), Page 186)

	F&B Thailand		
	2019	2018	Growth
Primary geographical markets	RM'000	RM'000	%
Thailand	1,580,915	1,426,571	10.8%
Cambodia	208,873	184,802	13.0%
	<hr/>		
	Group		
	2019	2018	Growth
Total export revenue outside Malaysia and Thailand	RM'000	RM'000	%
	717,747	673,531	6.6%



### QUESTION 3

The Company has embarked on dairy farming on 4,454 hectares of land in Chuping, Perlis to establish its fourth pillar of business.

- a) What is the estimated additional capital expenditure required, apart from the RM650 million required in phase 1, to achieve the long term target of 20,000 milking cows to produce 200 million litres of fresh milk per annum (page 53 of AR2019)? How does the Company plan to fund such expansion? How long will it take (number of years) to achieve the target?

*Phase 1 setup involves land preparation, crop farming equipment, bio-security system, dairy systems, importation of some 4,000 to 5,000 heifers (first time pregnant cows), bio-digester system, etc., that are critical components for the success of the integrated farm.*

*Subsequent phases (each phase also involves around 4,000 milking cows) would require lower investment compared to Phase 1. Land and certain equipment could be shared; and the dairy farm is expected to supply most, if not all, of its own heifers for future growth.*

*We expect to achieve 20,000 milking cows within 20 years. Additional capex would be in excess of RM600 million.*

*As Phase 1 and the subsequent expansions are to be carried out in phases, F&NHB will be deploying a combination of internally generated funds and external sourced funds.*

### QUESTION 3 (Cont'd)

- b) Given that F&N has been sourcing fresh milk from third parties, how does the Company plan to run the farm as the Company does not have the practical experience and skillset to run dairy farm?

*F&NHB has carried out two years of study aided by overseas experts in both confined dairy farming and cropping. It was only after favourable study outcome that F&NHB has decided to bid for the land in Chuping, Perlis.*

*F&NHB will employ a dedicated dairy farming management team comprising local and overseas talents. The team will be aided by a group of subject matter experts from different countries to ensure that all aspects of the operations from animal science to feed science to bio-security, etc., are well taken care of.*



### QUESTION 3 (Cont'd)

- c) To what extent can the dairy farming project help to reduce F&N's dependency on imported milk?

*Fresh milk consumption in Malaysia is very low compared with regional peers such as Vietnam and China. It is mainly due to a lack of affordable quality local fresh milk. As such, F&NHB's objective is to make local fresh milk more available and affordable to more Malaysians, especially the children.*

*As such, from Phase 1, the dairy farm is expected to produce a few times our current imported milk quantity. Imported milk may still be needed in smaller quantity for specific segments of consumers.*



### QUESTION 3 (Cont'd)

- d) Local fresh milk production from dairy cattle in Malaysia has grown at a compound annual growth rate (CAGR) of 4.95% from 28.81 million to 38.49 million litres during the period 2013 to 2018 (Agrofood Statistics 2018, Ministry of Agriculture and Agro-based Industry).

As such, the target of producing 200 million litres of fresh milk in Chuping seems an extremely ambitious target. Please explain.

*As explained above, fresh milk consumption in Malaysia is very low compared with regional peers such as Vietnam and China.*

*For Malaysia, local fresh milk only constitutes 3% of the total dairy needs of Malaysians. Much of our dairy needs are met by imported milk powder, either consumed by mixing with water or made into other dairy products such as recombined liquid milk (plain or flavoured), condensed milk, yoghurt and yoghurt drinks, etc.*

*In the two countries mentioned above, local mega dairy farming industry started some two decades ago. Over time, local fresh milk has replaced a big part of the dairy needs of the countries, which used to be filled by imported milk powder. Vietnam alone has over two dozens of mega dairy farms.*

*Fresh milk is the best milk. F&NHB strongly believes in the potential to converting dairy consumption in Malaysia from mainly imported milk powder to local fresh milk.*

## QUESTION 4

Distributor incentives, discounts and rebates increased by 13.5% (RM88.4 million) year-on-year to RM743.68 million compared to RM655.28 million in FY19. Meanwhile, total revenue grew by 5.3% (RM206.18 million) to RM4.08 billion in FY19. Why was there a significant increase of 13.5% in distributor incentives, discount and rebates in FY19, compared to the revenue growth of 5.3%?

*Distributor incentives, discounts and rebates as a proportion of sales is relatively higher (4 percentage point higher) for F&B Malaysia compared to last year, due to additional and longer promotional and festive campaigns. The distributor incentives, discounts and rebates are incurred to:*

- i. Grow our beverage business post-implementation of Sales and Services Tax (implemented on 1 September 2018) and also of sugar tax (implemented on 1 July 2019); and*
- ii. Protect our canned milk sales.*

*For F&B Thailand, distributor incentives, discounts and rebates as a proportion of sales is relatively consistent.*







**THANK YOU**