

Bringing
Smiles



RESPONSE TO
INQUIRIES



FRASER & NEAVE HOLDINGS BHD

59th ANNUAL
GENERAL
MEETING



**QUESTIONS
SUBMITTED
BEFORE AGM**

**QUESTIONS
FROM PNB**



QUESTION

1. Regarding the re-appointment of auditor (Resolution 7), I believe that you are aware that PNB Voting Guidelines states that PNB is to vote for the re-appointment of auditor if:
 - a) The audit partner has not served the company for more than 5 consecutive years
 - b) The audit fees is reasonable
 - c) The auditors do not provide advisory service so as to avoid potential conflicts of interest
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- a) *No KPMG audit partner has been overseeing the audit of the F&NHB Group for more than 5 consecutive years. The relevant engagement partner at KPMG PLT who was responsible in overseeing the audit of the Group's financial statements from FY2016 to FY2019 has handed over this responsibility to a new engagement partner at the beginning of FY2020.*
 - b) *In the opinion of F&NHB's Management and Board, the audit fees charged by the Group's Auditors are reasonable.*
 - c) *We confirm that KPMG has not provided any advisory services to Fraser & Neave Holdings Bhd for FYE2020. Details on the non-audit fees are disclosed in the Audit Committee Report on page 121.*

QUESTION

Based on the annual report (page 202), I noticed that there is a non-audit fees paid to KPMG PLT and its overseas affiliates for the FYE2020 and FYE2019. Could you please provide some clarities on the nature of services rendered by KPMG PLT and its overseas affiliates, other than the audit services?

The nature of services provided by KPMG PLT and its overseas affiliate are as follows:

- *Quarterly Reviews [Fraser & Neave Holdings Bhd];*
- *Review of Statement on Risk Management and Internal Control [Fraser & Neave Holdings Bhd]; and*
- *Review of Transfer Pricing Documentation for a subsidiary [F&N Dairies (Thailand) Limited]*



QUESTIONS FROM MSWG



QUESTION

Operational & Financial Matters

1. F&B Malaysia recorded a drop of 5.7% in revenue for the year to RM2.04 billion. Along with the lower revenue and higher input cost (mainly skimmed milk), operating profit declined 10% to RM144.9 million compared to the previous year. If exclude the RM7.8 million gain on disposal of “TEAPOT” trademark and effects of one-off and non-operating items in both years, the F&B Malaysia operating profit declined by 16.8% (Page 59 & 86 of the Annual Report 2020).
 - a) What is the outlook on global commodity prices especially skimmed milk?
 - b) What is the Company’s plan and initiatives to be taken to mitigate the impact from the increased input costs to protect its operating margin in the coming year?
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- a) *Generally, commodity prices have been on the uptrend, mitigated by stronger ringgit. As for skimmed milk, the prices have increased and remained high.*
 - b) *We are always on a lookout to reduce operating cost. This can come in the form of reviewing the effectiveness of our trade spend, CAPEX investment to extract efficiency and smart procurement to obtain better prices or value. Our hedging policy also helps to smooth out the impact of any increase in raw material prices. We will continue to manage costs prudently and review selling price as a last resort.*

QUESTION

2. In terms of Exports, we aim to set up more international offices, following the Dubai model. The path towards building another significant pillar i.e. Exports, will continue and be intensified (Page 61 of the Annual Report 2020).
- a) What is the outlook for export segment in FY2021?
 - b) Please share more details on the Company's expansion plan for export markets (now comprise 82 countries) i.e. which regions and countries it intends to penetrate and set up international offices? What are the opportunities and challenges in these markets?
 - c) We note that the total exports from Malaysia and Thailand contributed RM796 million revenue to the F&N group in FY2020 which was remarkably close to achieving its target of RM800 million. What is the Company's export sales target for FY2021?

With the prolonged pandemic situation across the world, coupled with the shortage of containers, 2021 will be a challenging year for Exports. However, we remain focused on growing export sales in existing markets while expanding to new markets. We are adopting the same successful Export strategy for 2021 while adapting and refining to constraints imposed by the pandemic.

We are exploring to set up more regional offices, possibly in Indochina, North Asia and ASEAN as they represent significant markets which we can further develop. With the current fluid circumstances, it is difficult to provide any target or outlook.



QUESTION

3. One of the two significant projects the Company embarked on in 2020 was to install 10MWp solar photovoltaic (“PV”) systems at its Shah Alam, Pulau Indah and Bentong plants in Malaysia with a total investment of RM30 million and is expected to be completed by financial year ending 2021 (Page 56 & 63 of the Annual Report 2020).
- a) What is the payback period for the above investment?
 - b) Please provide the estimated savings (per annum) on electricity cost arising from the above.
- a) All our CAPEX investments require to clear our investment hurdle and typically, our capex investments have a payback period of ten years or shorter.*
- b) Our target is to replace 20 per cent of our total energy requirement in Malaysia once the 10MWp solar PV systems are completed. However, the savings from this RM30m capex to the Group’s bottom line will not be very significant. Being a responsible corporate citizen and to fulfil our sustainability goals, the clean energy objective is our bigger motivation for undertaking this capex investment.*

QUESTION

4. F&N announced recently that it has entered into a conditional share sale agreement to acquire the entire equity interest in each of the three companies (Sri Nona Companies), whose principal activities are the manufacture, distribution, and sale of rice cakes and condiments, for a cash consideration of RM60 million.

Could the Company share more details on its future plan and strategies to expand into more halal food segments?

F&NHB is constantly exploring ways to 'reimagine' our business through organic growth and business synergies to create sustainable growth.

Just like how we have succeeded in making Exports a growth pillar, we are now developing Halal food as our fourth growth pillar. The acquisition is a small step but will serve as a platform to help us grow our halal food categories, complement our offerings, and introduce more innovative products in the long run.

As for the future plan of our Halal food segment, we will share the strategies when ready.



QUESTION

5. Write down of inventories increased to RM5.2 million, a 57.6% increase compared to the RM3.3 million recorded in FY2019 (Page 154 & 191 of the Annual Report 2020).
- a) What type of inventories that have been written down in FY2020?
 - b) What were the reasons for the increase in write-down of inventories?
 - c) Are the inventories written down still salable? Are there any further write down of inventories expected for the financial year ending 2021?
-
- a) *Inventories written down comprise raw materials, packaging materials, old engineering parts and finished goods.*
 - b) *The increase is mainly due to slow moving/expired stocks because of slower demand as a result of the pandemic, delisting of SKUs, and recipe change.*
 - c) *Where possible, for unexpired raw materials and finished goods, we will salvage through usage or sales discounts. Writing down of inventories is in the normal course of our businesses but we are unable to comment on the amount to be written down for the financial year ending 2021. No matter, we are monitoring the market situation and our inventories level closely to minimise any wastages.*

QUESTION

Corporate Governance Matters

6. Practice 8.4 – Step up of the Malaysia Code of Corporate Governance (“MCCG”) requires an audit committee to comprise solely of independent directors.

The Audit Committee of the Company comprises of four Non-Executive Directors, three of whom including the Chairman of the Audit Committee are Independent Directors (Page 116 of the Annual Report 2020).

As large Company as defined in the MCCG, does the Company plan to have its Audit Committee comprised solely of independent members?

The Company does not intend to adopt Practice 8.4 of the MCCG for the time being. Mr. Hui Choon Kit, the only member of the Audit Committee who is a non-independent director, has been contributing significantly in advising the Company in finance and accounting related matters.



QUESTIONS FROM OTHER SHAREHOLDER

VEIVEN GOON



QUESTION

1. Strategy - What is the rationale for the selling of the TEAPOT trademark to Fraser and Neave Limited? Can the Board explain why the TEAPOT brand no longer fit into the portfolio of F&N's brands? What will be the impact on revenues with this disposal? Does the company still own this trademark for F&B Thailand?

The rationale for the transfer is to centralise brand management role with Fraser and Neave Limited (F&NL) that has the brand management expertise and has successfully managed and grown many of Group's brands. This transfer will enable F&NHB to focus on our core competencies, which are growing our distribution and sales in our key markets of Malaysia and Thailand, and our export markets.

TEAPOT brand is still very much a part of our portfolio like all other F&N brands, which are owned by the FNL Group and licensed to us to enable the manufacturing, marketing, distribution and sale in markets that we operate in.

In short, the transfer of "TEAPOT" brand to F&NL is meant to be a financially neutral transaction for both entities while leveraging on respective entities' core competencies.



QUESTION

2. Business Outlook - In the CEO's statement it was mentioned that exports accounted for 20% of the Group's total revenue. Which brands and products are the most popular exports? Why is the export segment not reported as a separate segment?

Our top exported products are Condensed Milk and Evaporated Milk.

Our report is aligned with F&NHB's operating businesses, which are organised according to products and services by Food and Beverages Malaysia (F&B Malaysia); Food and Beverages Thailand (F&B Thailand); Property and Others segments.

F&NHB is a public listed company and we are competing with many private and unlisted companies. It is not to our interest to report segmental details for competitive reason. As such, to protect our shareholders' interest, we do not share such information publicly.

QUESTION

3. Financial Performance - The Group has set up an office in Dubai to develop opportunities in the Middle East and Africa. How much revenue is currently being contributed from markets in the Middle East and Africa?
4. Financial Performance - In Note 29 Operating Segments, it was reported that F&B Malaysia had a revenue of 2,040.7 million and operating profit of 144.9 million, giving an operating profit margin of 7.1%. For F&B Thailand revenue was 1,943.8 million and operating profit was 381 million giving a operating profit margin of 19.6%. Can the Board explain why there is such a big discrepancy between the margins of F&B Malaysia and F&B Thailand?

3. *Revenue from halal markets which include MENA (the Middle East and North Africa) exceeds RM100 million in FY2020. You can refer to page 199 in our annual report for our primary geographical markets' revenue contribution.*

4. *There are two main reasons for this. Firstly, Malaysia and Thailand have different competitive landscape. In Malaysia, we face more intense competition, and there is also a trend to trade down.*

Secondly, our Thailand operation is pure dairy-focused while the F&B Malaysia business includes beverages, a segment with lower profit margin compared to dairy.





**QUESTIONS
SUBMITTED
DURING AGM**



QUESTION

1. Hi, May I know any plan to intensify e-commerce portal and distribution channel?

LEE MUN HOE

Answer:

For our e-commerce portal, F&N Life, we are exploring different order fulfilment options that cater to varied needs. We have recently opened a fulfilment centre in Kuala Lumpur, which provides more choices to consumers such as self-pickup option and express next day deliveries for our F&N Life shoppers. In the future, we aim to set up more fulfilment centres across Malaysia. We also have greater plans to expand F&N Life into a lifestyle app.

The e-commerce app is only a part of our comprehensive e-commerce strategy. We have been working even closer together with e-commerce merchants, who are vital partners in our e-commerce business, in Malaysia, Thailand and overseas markets like China to expand our products' reach to a broader audience.



QUESTION

2. What are the reasons our company unable to obtain approval from Ministry of Economic Affairs in respect of the purchase of Ladang Chuping by F&N AgriValley from MSM Perlis? Can the board kindly explain in detail.

Why MSM Perlis not granted any extension of time for the satisfaction of conditions precedent under the SPA?
Is it due to conflict in negotiation?

TAN ZI HOW

Answer in next slide

QUESTION

2. Why was the acquisition of the dairy farm business not successful? (Cont'd)

RUSMIN

Answer:

The Ladang Chuping land is leased by the Perlis state to MSM Malaysia Holdings Bhd (MSM). We had planned to purchase the leased land from MSM, a state-owned company that FGV Holdings Bhd has a stake in. The Federal Land Development Authority (FELDA) in turn is the majority shareholder of FGV. For an acquisition of such large parcel agricultural land owned by state owned machineries, the transaction process can become complex and lengthy.

We could not complete the process within the stipulated timeline for Fraser & Neave Holdings Bhd's (F&NHB) wholly-owned F&N AgriValley Sdn Bhd to obtain the required approvals. While there is a clause for both parties to extend the contract period, the vendor exercised their rights to rescind the sale and purchase agreement.

Regardless of that outcome, F&NHB remains confident that the dairy sector offers great opportunities. We see it as an opportunity to think outside the box to explore new approaches to realise our ambition of becoming a leading player in the fresh milk industry.



QUESTION

3. Any new products for the health conscious?

LAI YEN FOON

Answer:

In our effort to transform our portfolio towards healthier choice, we offer consumers beverage options with reduced or low sugar to no sugar, and healthier dairy options that contain less fat or sugar. Today, 90% of our Ready-to-drink (RTD) products sold are below 5 grams of sugar per 100ml.

Healthier options launched in FY2020 in Malaysia included Sunkist Pure Juice Drink, 100PLUS Zero, F&N Ice Mountain Sparkling Water and OYOSHI Gold No Sugar Premium Japanese Green Tea. In Thailand, we introduced CARNATION Plus Sweetened Condensed Milk with 0% Fat and 25% Reduced Sugar, and F&N Magnolia Milkies tablets made from 100% New Zealand milk.

We now have a healthier option in every product category we are in except for Energy segment and 47 products that carry the Healthier Choice Logo (HCL) endorsed by the Malaysian Ministry of Health or Thailand's Ministry of Public Health.

Our latest healthier choice addition in FY2021 endorsed with HCL in Malaysia is a new range of F&N Sparkling beverage, which comes in 3 flavours – Apple Barley, Espresso and Honey Lemon.





THANK YOU