

# Chief Executive Officer's Statement

## Dear Shareholders and Stakeholders,

The year 2021 has been exceedingly difficult, with the prolonged pandemic situation and geopolitical tensions. All that, plus rising oil prices, saw the industry contending with a significantly higher cost of production with surges in commodity prices, particularly sugar, palm oil and milk-based commodities, and exacerbated by an increase in supply chain costs.

Movement restrictions that escalated into total lockdown during the year also meant reduced workforce at our plants. Couple that with supply chain disruptions, exports were constrained. Consumer demand was also adversely affected by dining-in prohibition at food and beverage outlets and restricted operating hours for convenience stores.

Our focus within this scenario has been to ensure business continuity. We took immediate steps to intensify safety and preventive measures to safeguard our people, adjust our sales & marketing initiatives according to the new operating landscape and meet the shift in consumer consumption behaviour, as well as ensure continued supply and availability of our products with our trade partners.

Key to our longevity has been our capacity for constant self-adaptation and evolving through more than a century of change, fuelled by the passion and commitment of our people. This same spirit navigated us to deliver another resilient performance for the financial year ended 30 September 2021 (FY2021).

Guided by our Global Values of Creating Values, Collaboration and Caring for Our Stakeholders, we have entrenched our business sustainability by ensuring we remain relevant to the people that matter. So, while it was a tough year, it was also rewarding; and it gives me pleasure to describe our initiatives in more detail in the following pages.



**LIM YEW HOE**  
Chief Executive Officer

### CREATING VALUES: FOR US & OUR STAKEHOLDERS

#### REIMAGINING THE WAY WE WORK

At the onset of the pandemic in 2020, the Group was conscious that COVID-19 disruptions would permanently change our market environment. This has compelled us to reset and 'reimagine' our business strategies in preparation for the future.

We undertook several 'Reimagine' projects geared towards building new capabilities and revenue streams; uplifting our productivity and profit; while improving our cost-efficiency. Values to be extracted from these projects would be instrumental in delivering sales and cost savings in future. At the same time, we reorganised our structure to be aligned with the business needs and opportunities presented by COVID-19 and digital technology. This step-change will deliver a more efficient, agile and focused organisation and set a foundation of sustainable growth for the business.

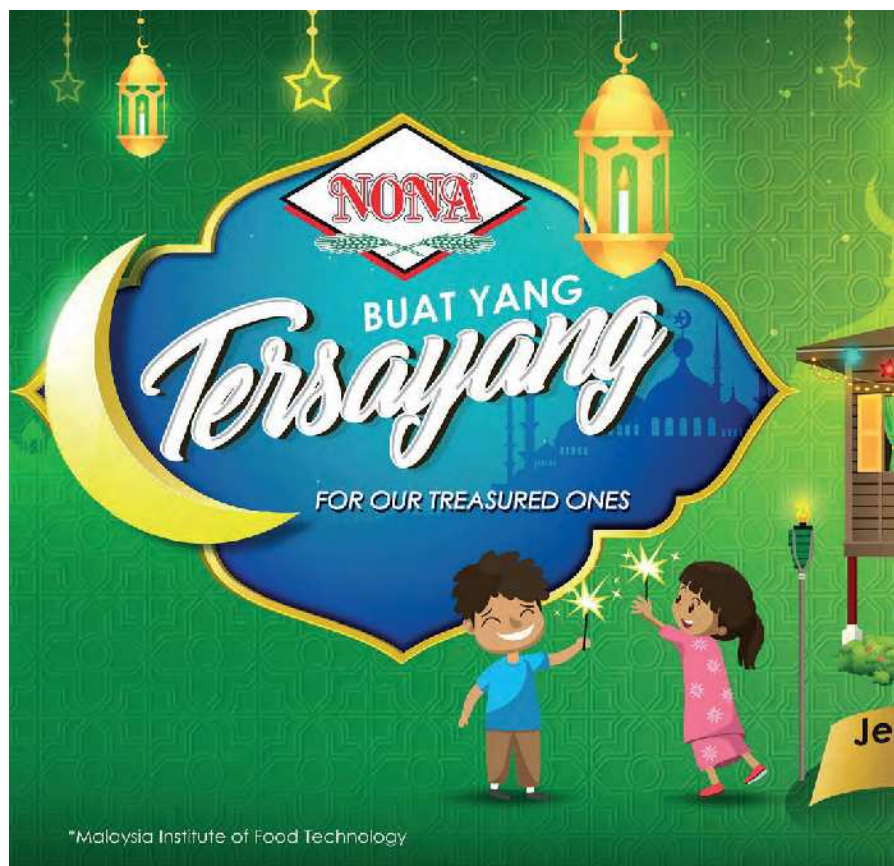
The turmoil caused by the pandemic underlined the urgency of collective action to address increasingly critical global issues. The Group has always sought to be environmentally and socially responsible. This year, we refreshed our materiality matrix to better reflect current global imperatives. We have also set new sustainability commitments for 2025 and entered new partnerships to further strengthen our environmental, social and governance (ESG) platforms.

#### BUILDING OUR FOURTH PILLAR OF GROWTH

Amidst COVID-19 disruptions, we have remained steadfast in pursuing our long-term strategic priorities. With the acquisition of Sri Nona Companies in January 2021, we have diversified into food and become leaders in the ketupat and halal oyster sauce categories. Our latest investment not only adds an established Malaysian household food brand to the Group's portfolio but will also serve as a platform to expand into more halal food segments and to meet the rising demand for convenience and ready-to-eat food products.

We are excited about the potential of building Halal Packaged Food into another growth pillar like Exports, which now generates almost RM900 million in revenue for the Group. With our robust R&D capabilities, we are confident that our new assets will help us grow our halal food categories, complement our offerings, introduce more innovative products, and increase our profit margin in the long run.

Sri Nona contributed positively in FY2021, and we believe there is much more potential to be realised. Leveraging partnerships within the Group, we seek to expand Sri Nona's route-to-market coverage and create supply chain synergies. In fact, since October this year, we have started to distribute Sri Nona products via F&N Beverages Marketing channels in areas not covered by existing distribution. We are also looking into our production capacity to support the expansion of Sri Nona's product range.



#### MEETING OUR CUSTOMERS AND CONSUMER NEEDS

We have always taken pride in being innovative in marketing, which to us is about connecting in an authentic manner with our customers and consumers. In Thailand, we have established strong ties with hawkers by supporting them with collaterals and decorations that are both functional and attractive, thus also increasing our brand visibility. We maintain close contact with these hawkers via a Line app which, to date, has attracted close to 20,000 members.

For consumers, our focus has shifted from advertising to increasing brand loyalty through value-add promotions. We are also engaging more meaningfully with consumers on social media. For example, in Malaysia, we presented 100PLUS-sponsored virtual workouts to help our consumers stay active during the MCO. Almost all our product launches this financial year were also carried out on social media, accompanied by value-add promotions or activities.

“ We are excited about the potential of building Halal Packaged Food into another growth pillar like Exports, which now generates almost RM900 million in revenue for the Group ”





The success of F&N Teh Tarik's virtual launch last year is a testament that the team is connecting effectively with consumers through its online activations. Not only was the experiential marketing campaign recognised as the most creative and innovative at the MARKies awards 2021, within a year of its launch, F&N Teh Tarik, together with our other tea brands made F&N No. 1 in the Tea segment within the Asian Drinks category in Malaysia.

A portfolio that resonates with consumers underpins our sustainable growth. Altogether 13 new products were introduced this year, including F&N Sparkling, F&N Bandung CSD and est Cola Brown Sugar in Malaysia; as well as BEAR BRAND GOLD Acerola Cherry and a 50 per cent lower-sugar, low-fat F&N Magnolia Choc Malt Milk in Thailand. We also offer new products that cater to a growing range of dietary preferences, such as F&N Magnolia Lactose-free Milk and 100PLUS Zero.



To address weak consumer sentiment and tightened purse strings, we launched value buys such as smaller-sized packs and value-priced items while creating a presence in the economy segment. In Cambodia and Laos with Gold Coin sweetened beverage creamer. On packaging, this year saw us introduce F&N ICE MOUNTAIN Mineral Water in 6L bottles for consumption at home in Malaysia; and TEAPOT 500g pouch catering to foodservice channel, TEAPOT 25g duo sachets, and mini packs of F&N Magnolia lactose-free milk for those on the go in Thailand.

Partnering with major e-commerce players such as Lazada and Shopee, our products are now accessible practically anywhere in the region. Meanwhile, we continue to expand our offerings and explore different order fulfilment options in our flagship online store, F&N Life in Malaysia, and *nom aroi* in Thailand.

## COLLABORATION TO UNLOCK VALUE: INTERNALLY & WITH OUR PARTNERS

### UNLOCKING VALUE THROUGH PARTNERSHIPS

Part of our value creation efforts is to seek collaboration that drives greater outcomes. Through collaboration, we strengthen our relationships and safeguard our supply chain while further enhancing the commercial and operational aspects of our business.



In Thailand, we have been working with several dairy farmers' cooperatives since 2013 to improve their productivity and milk quality. This year, we contributed a Grass/ Corn Silage Bundling machine and a Tiller Fertiliser machine to Thepsathit Dairy Cooperative in Chaiyaphum Province. This initiative reduces cow feed costs by reusing cow waste as fertiliser for corn and corn silage fermentation.

At the same time, the team developed a new method of milk transportation to simplify running routes, minimise our environmental impact and monitor raw milk data in real-time. This will help the farmers reduce more than 200,000kg of CO<sub>2</sub> emissions per year.

# CHIEF EXECUTIVE OFFICER’S STATEMENT

Another outcome from a strategic collaboration with our supplier is the setting up of a plant in Selangor by leading aluminium can manufacturer, Baosteel Group, from China. The plant will not only ensure a stable supply of cans at a lower cost for the Group but will enhance the supply chain for the industry as a whole. Additionally, we are linking our polyethylene terephthalate (PET) bottle supplier with a resin manufacturer to manufacture recyclable PET. This will greatly support the government’s plastic waste management initiatives.

Within our organisation, we are facilitating greater integration by bringing our team together under one roof. Employees currently based at several offices in Kuala Lumpur are expected to relocate to the Shah Alam office in mid-2022. With everyone working in the same place, we hope to enhance productivity and outcomes through enhanced internal communication and collaboration.

Operationally, we have accelerated our digital journey and intensified the adoption of more systems driven by the latest technology under a Workplace 4.0 transformation. The idea is to evolve into a smart hybrid workplace where we achieve more with less; greater productivity at lower cost. This applies to our entire value chain, from procurement to manufacturing, marketing, sales and support functions.

## INDUSTRY COLLABORATION IN UPLIFTING SUSTAINABILITY

As a leading manufacturer of halal products, F&NHB has a role in facilitating the Halal Industry Development in Malaysia apart from maintaining halal integrity throughout the supply chain. Through the Halal Sourcing Partnership Programme, we partner with the Halal Development Corporation Berhad (HDC) in capacity-building programmes designed to help small and medium enterprises (SMEs) qualify as halal vendors for multi-nationals. This year, we successfully onboarded two companies as our suppliers and are in the midst of developing more.

To further enhance the management of post-consumer consumption waste, we have teamed up with other industry leaders to establish the Malaysian Recycling Alliance (MAREA). The aim is to develop solutions for the sustainable management of post-consumer packaging waste through a multi-stakeholder approach. We are also a member of the CEO Action Network (CAN), an informal peer-to-peer coalition of CEOs and leaders in Malaysia. Through CAN, we hope to drive progress in ESG through collective commitment and knowledge exchange with similar-minded organisations in the country.

“ To ensure that the well-being of Malaysians are protected during this critical period, we further encouraged the public to stay hydrated by distributing more than one million bottles of 100PLUS at major vaccination centres ”





## CARING FOR OUR STAKEHOLDERS

We firmly believe that economic value extraction should not be at the expense of society. This underlines our investments into ESG, which we do not approach as being separate from our operations but integral to it.

### A BETTER SOCIETY

People's health and well-being are taken seriously at F&NHB, given that 'we are what we eat/drink'. This has seen us continuously reduce the sugar content of our beverages while enhancing their health benefits by incorporating nutritional ingredients. We have achieved a significant reduction, cutting the sugar content in our total beverages by 61 per cent since 2004. More than 90 per cent of our ready-to-drink products sold today have less than 5g sugar per 100ml.

This year, we directed our brand communications on promoting an active lifestyle and optimal hydration. To ensure that the well-being of Malaysians are protected during this critical period, we further encouraged the public to stay hydrated by distributing more than one million bottles of 100PLUS at major vaccination centres such as Putra World Trade Centre (PWTC), Malaysia International Trade and Exhibition Centre (MITEC) and PPV Bukit Jalil via the #HidratkanDiriSihatkanBadan campaign.

Responding to communities' needs, the Group distributed over two million products to various beneficiaries nationwide in FY2021, including food banks and non-governmental organisations (NGOs). During Ramadan, F&N products and daily essentials were distributed to 20,000 beneficiaries nationwide, including 100 underprivileged homes through the 'Keberkatan Plus Plus' programme. In Thailand, we took care of our community of 20,000 hawkers by giving them various F&N products for encouragement during this difficult period. Meanwhile, we worked closely with government agencies to expedite the vaccination programme for our people and supply chain community through our employees' vaccination programme. Our employees also receive three days of additional paid leave to attend to their vaccination.



Underlining our commitment to contributing towards a better society, this year, we conducted our inaugural Human Rights Due Diligence process to understand potential human rights issues faced by stakeholder groups across our value chain. This resulted in the development of relevant policies and procedures which will help us ensure the rights of all our stakeholders are respected.

### CIRCULARITY & ENVIRONMENTAL PROTECTION



We care for the environment because it has a direct impact on society's well-being. All our capital expenditure projects have their environmental objectives apart from achieving operational and cost efficiencies. In April 2020, we commissioned the 1MWp solar panelled roof of our plant in Rojana. Meanwhile, we are installing perhaps one of the biggest rooftop solar photovoltaic (PV) systems in Malaysia at our Shah Alam, Pulau Indah and Bentong plants, with a total capacity of 10MWp. Once completed in 2022, we will replace 20 per cent of our electricity needs with clean energy in Malaysia. In fact, solar power generated in Shah Alam will be sufficient for our entire 100PLUS direct line production, while that in Pulau Indah will be able to account for all our pasteurised products.

Given the nature of our business, waste management is another key sustainability area for us. Over the years, we have been reducing the volume of materials used in packaging. Today, we have committed to having 100 per cent recyclable packaging and 25 per cent recycled content in our beverage and dairy product packaging by 2025.

Since the F&N school recycling programme's inception in 2007, 756 schools nationwide have been involved and a total of 4,760 tonnes of recyclable waste has been saved from going into landfills. The programme this year was very much scaled-down due to school closures. With the gradual reopening of schools, we aim to expand the programme to more schools and extend 5R awareness to the community once the situation permits.

## PERFORMANCE REVIEW

Contributions from diversified products and geographical presence were key to the Group's resilient performance for the year, while prudent cost management partially mitigated higher input costs. Strong brand performance, especially in Dairies, together with double-digit growth in Exports and maiden contribution from our new Halal Packaged Food pillar, enabled us to produce a commendable financial scorecard. Group revenue grew by 3.6 per cent from RM3.99 billion in FY2020 to RM4.13 billion despite the tough environment.

However, increasing costs attributed to commodity and freight, restructuring and COVID-related expenses, and a lower share of profit from an associate – were reflected in our bottom line. Excluding one-off/non-operating items in both years, including RM20.9 million restructuring expenses this year and RM7.8 million gain on the disposal of "TEAPOT" brand last year, Group profit before tax declined by 3.9 per cent to RM479.4 million. Meanwhile, Group net profit declined 3.7 per cent from RM410.1 million in FY2020 to RM395.1 million, partially mitigated by investment tax incentives at F&B Thailand and deferred tax assets recognised for F&B Malaysia.

Concerted efforts to create value for our customers and consumers contributed to F&NHB maintaining our market leadership in core categories. 100PLUS remains the undisputed No. 1 Isotonic drink in Malaysia. We are also leaders in the Tea segment of the Asian Drinks category, Sweetened Condensed Milk and Evaporated Milk categories; while in Thailand, we have captured the Sweetened and Evaporated Milk categories; and in Cambodia and Laos, TEAPOT is the No. 1 Condensed Milk brand.



### FOOD & BEVERAGES MALAYSIA

Higher sales captured in the first nine months of the financial year by Food & Beverages Malaysia (F&B Malaysia) helped cushion the dip in the fourth quarter due to the nationwide lockdown in July/August 2021.

Aided by higher exports, sustained demand in the Dairies segment and contribution from Food business, F&B Malaysia grew its revenue by 4.4 per cent to RM2.13 billion from RM2.04 billion in 2020. However, operating profit declined to RM97.7 million from RM144.9 million in FY2020 due to higher input costs and restructuring expenses. Cognisant of the economic constraints on households spending, there was also a delay and phasing of price increase for dairy products in Malaysia. Excluding restructuring expenses and one-off/non-operating items in both years, operating profit for F&B Malaysia declined by 15.0 per cent.







### FOOD & BEVERAGES THAILAND

While Thailand also experienced a rise in COVID-19 infections and lockdown measures, consumer demand remained fairly resilient. Food & Beverages Thailand (F&B Thailand) was able to sustain growth and increased its share in all core segments despite the overall market decline. This was achieved through effective loyalty and promotion programmes and continuous efforts to expand distribution coverage. However, the result was partly negated by unfavourable THB/MYR forex translation.

Supported by higher sales to Indochina with double-digit growth in Cambodia and higher OEM exports, F&B Thailand grew its revenue for the year by 2.6 per cent (5.6 per cent increase in Thai Baht terms) to RM1.99 billion. However, operating profit was flat in Thai Baht terms due to higher commodity costs and royalty expenses. In Ringgit terms, operating profit declined 3.0 per cent to RM369.4 million from RM381.0 million in FY2020 due to the strengthening of the Ringgit against the Thai Baht.

### EXPORTS

The Export business (from both Malaysia and Thailand) continued to grow and contributed RM896 million to Group revenue this year, fuelled by significant progress and expansion in ASEAN, Greater China, the Middle East, and Africa. This was through efforts to expand usage of our products via new applications in food service and industrial channels, as well as closer collaborations with key OEM customers to develop new products for sale in more regions.

Exports accounted for 22 per cent of the Group's total revenue in FY2021 and expanded its reach to 85 countries. Our focus on halal markets continues to be fruitful as revenue from halal markets grew about 40 per cent.

Indochina market (managed by F&B Thailand) also performed strongly, with Cambodia and Laos collectively contributing over RM250 million in revenue, driven by successful expansion of distribution and reach.

\* Financial performance of Exports are included in F&B Malaysia and F&B Thailand segment results.





## OUTLOOK & GOING FORWARD

As we enter FY2022, the number of daily COVID-19 cases has been declining at an encouraging pace in both Malaysia and Thailand. Movement restrictions are gradually easing, and there are positive signs that the economies in both countries will pick up.

Nevertheless, the Group remains cautious given ongoing market challenges and global uncertainties. We do not expect the market to return to pre-pandemic conditions anytime soon and foresee that commodity prices will remain inflated moving forward.

At the same time, we are prepared to ride on the encouraging return of economic activities in Malaysia and Thailand to drive sales, particularly for our beverages, ready-to-drink dairy business, and out-of-home channels. We will continue to offer products that meet consumers' evolving needs and refine our pricing to cushion our businesses against cost pressures. These actions, coupled with the restructuring exercise just completed in the last financial year, will put us in good stead against imminent risks while keeping us on track to drive future growth.

Exports will continue to be a key focus for both Malaysia and Thailand. Having achieved strong growth in a full year of pandemic, we look forward to even better performance in FY2022 when the global landscape stabilises. We will not shy away from investing in capability to tap into new opportunities, be it for our own branded exports or those of key OEM customers.

With Sri Nona in our portfolio, we have good leverage to further grow our Halal Packaged Food pillar and will be exploring various options – organic or otherwise – towards this end. We have a RM3 billion sukuk programme at our disposal that we can draw down when the right opportunity presents itself. We are also investing to become a halal thought leader, and the HDC Halal Excellence Award that we won in FY2021 indicates that we are already making a mark in this direction.

“ While gearing up for economic recovery, we will remain focused on implementing our mid to longer-term strategic initiatives that will enable us to respond to challenges and opportunities with confidence and conviction ”



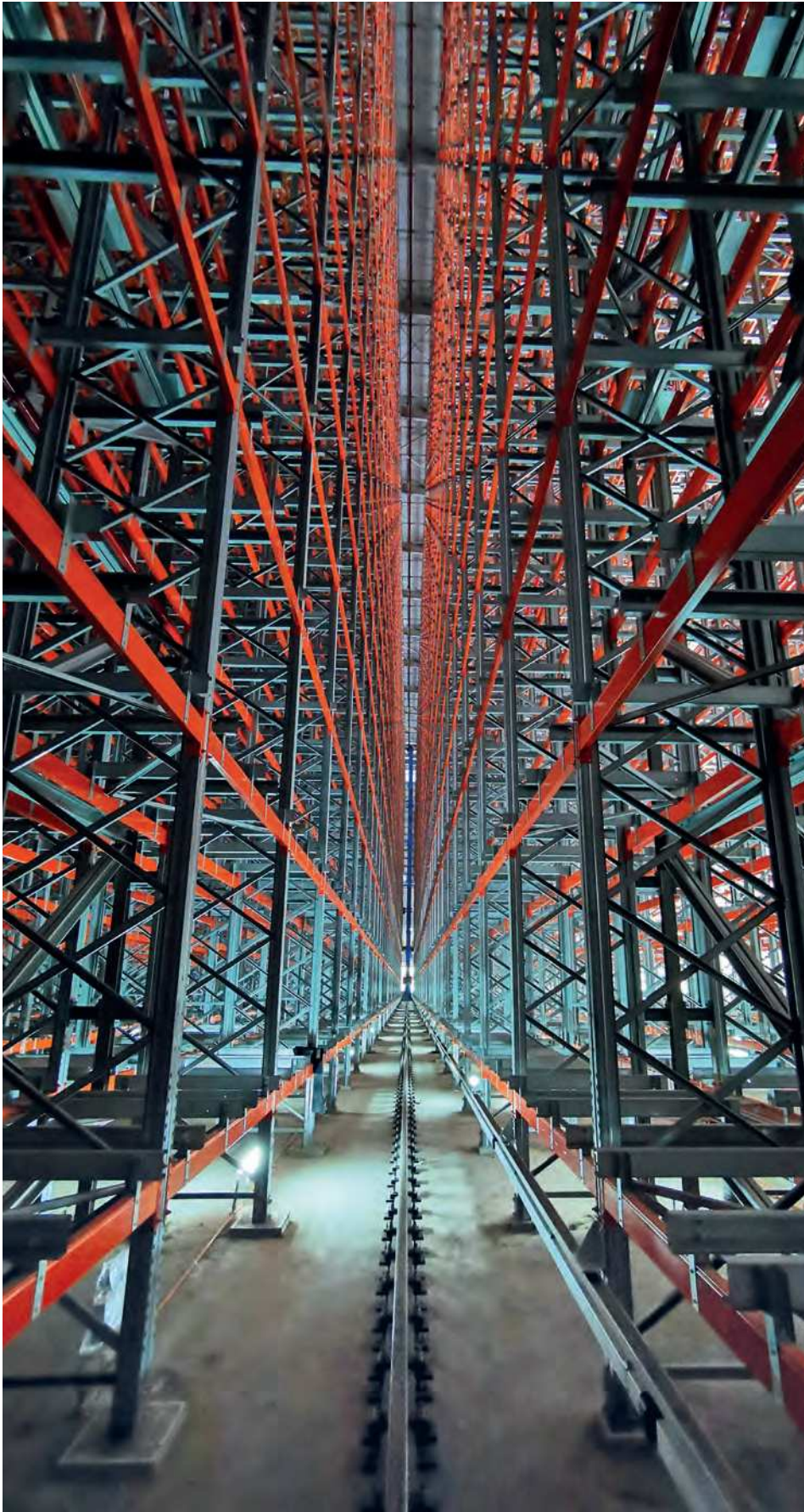
In 2022, the Group targets to achieve further operational and cost efficiencies, and carbon footprint reduction with the completion of several capex investment projects, such as the integrated warehouse in Shah Alam, drinking water line in Kota Kinabalu, Regional Distribution Center in Rojana, and the installation of 10MWp Solar PV systems in Malaysia.

Our new sustainability framework towards Better Business, Better Society and Better Planet, and commitments for 2025, will accelerate our Economic, Social and Environmental progress to build a stronger future for the Group, and create long-term value for our stakeholders.

As Malaysia enters the recovery phase of the pandemic, a key priority is to assist our trade partners to recover as quickly as possible to benefit from the easing of economic activities. At the same time, we continue to keep our people safe with proactive preventive measures and support vulnerable groups within our community as they gradually regain their livelihoods.

While gearing up for economic recovery, we will remain focused on implementing our mid to longer-term strategic initiatives that will enable us to respond to challenges and opportunities with confidence and conviction. We especially look forward to rolling out Reimagine 2.0 initiatives, which build on our PASSION 2025 roadmap, focusing on three domains:

- Building new capabilities to enhance our business through better products and route-to-market, as well as by partnering with stakeholders to grow sustainably;
- Strengthening our leadership in core markets via increased focus on our supply chain, process innovation and digitalisation, as well as portfolio management;
- Unlocking our potential to enhance shareholder value through strategic partnerships, improving the value of our assets, and developing a world-class workforce.



## ACKNOWLEDGEMENTS

FY2021 was undoubtedly difficult in many aspects, yet we have emerged in some ways even stronger than before thanks to the contributions of all our stakeholders. As always, I would like to thank our customers and consumers for continuing to choose F&N as their preferred choice. I would also like to express my appreciation to our business partners for their cooperation and collaboration, and our shareholders for their faith in our ability to deliver.

On behalf of the management, I would like to express my gratitude to our Chairman and Directors for guiding us through a period of great turmoil and providing a sense of stability with their steady counsel. Most of all, *Terima Kasih*, Thank You and Khob Khun Krab to all our employees for their hard work and commitment, which have been invaluable, not just in FY2021 but throughout the years. Let us continue to Reimagine our company growing from strength to strength, and realise this vision with Passion. Together, we can achieve a better tomorrow for everyone.

**Lim Yew Hoe**  
Chief Executive Officer