



# Chief Executive Officer's Statement

**LIM YEW HOE**  
Chief Executive Officer

## Dear Shareholders & Stakeholders,

The financial year ended 30 September 2022 (FY2022) was indeed a year of two halves. While increasing commodity prices was the common theme, the first half was compounded by the floods in our beverages plant in Shah Alam, which resulted in loss of sales during the Chinese New Year period due to damaged goods. Nevertheless, the effective strategies we had put in place to navigate market risk and exposure enabled the Group to re-establish ourselves on a stronger footing during the year's second half.



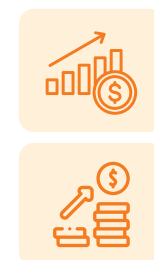


Operationally, we made headway in growing our business while further reinforcing our sustainability. In FY2021, we embarked on our fourth business pillar of Halal Packaged Food with the acquisition of Sri Nona Group. Today, we further strengthened this pillar with the acquisition and privatisation of Cocoaland Holdings Bhd, an established Malaysian confectionery and snack company which will serve as a platform to expand into more Halal food segments. The process began in April, and Cocoaland was fully privatised as a 100 per cent owned subsidiary on 25 November 2022.

With the acquisition of Ladang Permai Damai, the Group is also on track to resume its plan in the upstream fresh milk business in Malaysia for downstream production and distribution.

In terms of sustainability, we have just completed the installation of the largest industrial solar roof panels in Malaysia, with a total capacity of 10MWp, which will replace 20 per cent of our electricity requirement and remove approximately 9,000 tonnes of CO<sub>2e</sub> emissions annually.

Ensuring the right balance between profits and best business practices in our pursuit of growth opportunities during the pandemic is not always easy. However, we never



lost sight of doing the right thing, and our efforts to date have been duly recognised. Most recently, we were ranked among the top 3 companies for ESG performance in ASEAN, and the best in our sector at the Edge ESG Awards 2022.

Meanwhile, we turned crisis into a value-creating opportunity, strengthening our flood management and mitigation abilities with a three-line defence plan to fortify our Shah Alam assets. We are confident that lessons learnt from FY2022 will stand us in better stead to face future monsoon seasons.

Overall, it was a year that we can be proud of – one that once again demonstrated the resilience of our people and brands, and a year that underlined the effectiveness of our focus on value creation, collaboration and caring for our stakeholders.



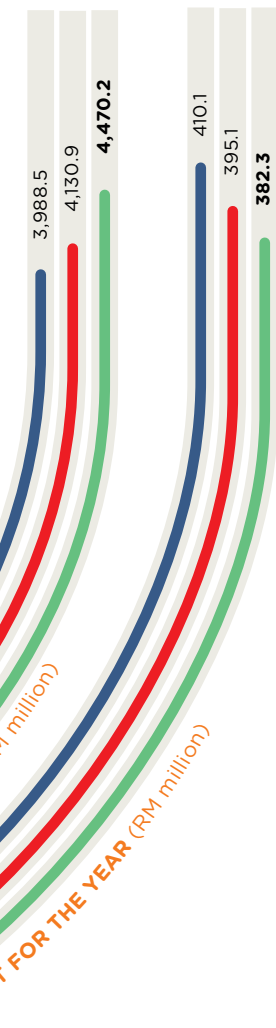
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2020 2021 2022

GROUP REVENUE (RM million)

PROFIT FOR THE YEAR (RM million)



## CREATING VALUE: FOR US & OUR STAKEHOLDERS

### STRENGTHENING FOURTH PILLAR OF GROWTH

Sri Nona achieved double-digit growth in sales backed by the launch of new products – ketupat nasi ayam, ketupat nasi lemak, kicap range, sup uncang – and strengthened internal systems with the introduction of SAP ERP system to align its governance with the F&NHB Group. The introduction of refreshed packaging and a new logo reflective of a more cosmopolitan lifestyle brand was also carried out post-Hari Raya.

The acquisition of the entire equity interest in Cocoaland Holdings Bhd, in which we previously had 27.62 per cent shareholding, further strengthens our Halal Packaged Food portfolio. Cocoaland's popular snacks and confectionery will complement F&N and Sri Nona to create a fuller food and beverages portfolio and also enhance the Group's expansion in overseas markets.

### BUILDING CAPABILITIES

Organically, we continue building our internal capabilities to create greater operational and cost efficiencies. In Malaysia, despite the flood impact, we partially operationalised our 50,000-pallet integrated warehouse in Shah Alam in the second half of the year and acquired five new delivery trucks to optimise our supply chain efficiencies. In Thailand, our RM52 million regional distribution centre (RDC) in Rojana was up and running in January 2022. Both the Shah Alam warehouse and the RDC in Rojana are equipped with the latest technologies, including the Automated Storage & Retrieval System (ASRS). Both are expected to accrue significant long-term savings, with the Shah Alam warehouse expected to cut costs by more than RM1 million a month when fully operational.

In Thailand, we cemented our commitment to delivering healthier choices through the investment of RM128 million in a new liquid milk and plant-based manufacturing facility in Wang Muang, a three-hour drive north of Bangkok.



# Chief Executive Officer's Statement

## MEETING OUR CUSTOMERS AND CONSUMERS' NEED

While developing our business, we continue to create value for our customers and consumers, critical stakeholders to our sustainable growth. Among others, we have begun to engage with and serve more customers directly, providing faster and more efficient service delivery.

For the year as a whole, we introduced no less than 14 new products, including six that have been endorsed as Healthier Choice by either the Malaysian Ministry of Health or the Thailand Food and Drug Administration. Each product is developed according to trends discerned from market data analysis.

These include F&N 25% Reduced Sugar Sweetened Creamer and TEAPOT Low Fat 25% Less Sucrose Sweetened Condensed Milk Tube; F&N Magnolia Pasteurised Full Cream Milk, F&N Magnolia UHT Milk in Plain and Chocolate flavours, F&N Magnolia Plus Vitamin ACD in Blackcurrant and Brown Sugar flavours; and a reformulated F&N SEASONS Soya Rose with better taste but with less sugar.

Another two product innovations are the Teapot Evaporated Milk and Sweetened Evaporated Milk (2 in 1) in beverage cartons that became an instant hit with chain beverage operators in Thailand for the ease of use and storage. The 2-in-1 product offers a perfect combination of sweetened and unsweetened condensed milk, which enhances the milky aroma.



Teapot continues to build brand loyalty with hawker customers in Thailand through the “TEAPOT, the more you use, the more you get” campaign. Hawker operators collect points and redeem prizes through our official LINE account. During the campaign, there was also a nationwide hawker decoration contest, which attracted over 14,000 participants. We also stepped up our hawker engagement through the Line app, achieving a 15 per cent increase in active members.

Sensitive to rising inflation, we have also been diligent about offering value to consumers by giving more for less. Among others, we introduced 1.75L carbonated soft drinks for the same price as the traditional 1.5L bottles during the promotion period; Farmhouse Twin Packs that offer more value for money; and a new range of F&N Magnolia UHT Milk priced at a very affordable THB10 in Thailand. Adding convenience to value, we introduced the 1L carton for two new products in Thailand – TEAPOT Extra Evaporated and TEAPOT Sweetened Evaporated Milk.

In keeping with increasingly digital lifestyles, we have continued to grow our e-commerce presence. During the year, we explored different ways to grow our digital stores – F&N Life in Malaysia and F&N Nom-Aroi in Thailand – while partnering with established e-commerce platforms like Lazada, Shopee and e-commerce partners like Potboy and JOCOM, which have registered positive traction during the year.



## COLLABORATION TO UNLOCK VALUE

Collaboration is integral to creating value; hence we invest considerably in partnerships with key stakeholders to create mutually beneficial synergies.

It was especially manifested during the December floods, when teams across various functions and external service partners came together in a strong show of solidarity to protect our assets and hasten the recovery process while minimising disruption to our operations.

Since 2013, we have been working closely with multiple cooperatives of dairy farmers in Thailand on a Farming Excellence System. Currently, some 2,000 farmers are being guided to improve their productivity and milk quality in a sustainable manner. In FY2022, these farmers were hand-held through an assessment of their GHG emissions and subsequently to develop long-term roadmaps to reduce their GHG footprint. Improved productivity and sustainability of the farmers are beneficial to F&N, as we rely on them for the supply of fresh milk in Thailand.

Through another partnership – with the Halal Development Corporate Berhad (HDC) – we are entrenching our Halal status while contributing to the growth of the Halal industry. With HDC, we have established a Halal Sourcing Partnership Programme through which small and medium-sized enterprises (SMEs) receive technical advice to qualify as Halal suppliers to large corporations/multinationals. At the 18<sup>th</sup> Malaysia International Halal Showcase (MIHAS) 2022, in which F&N is the Platinum Sponsor, we took the opportunity

to conduct a one-on-one pitching session to uncover more local businesses with the potential of becoming our supplier under the Halal Sourcing Partnership Programme.

To further propel the Halal eco-system in Malaysia, we also facilitate positive collaborative engagement with Halal authorities such as Jabatan Kemajuan Islam Malaysia (JAKIM), Jabatan Agama Islam Selangor (JAIS) and the Department of Standards Malaysia through the Federation of Malaysian Manufacturers (FMM) towards developing Halal-related standards, such as Sertu standards and the Malaysian Standard 1514 Good Manufacturing Practice (for Food).

The pandemic reinforced the importance of establishing strong relationships with our business partners to protect our supply chain. This prompted us to launch an F&N Business Partner Award Programme. The objective is to build collaborative strategic partnerships aimed at product, service, and operational excellence towards a resilient and sustainable supply chain. Local suppliers make up 93% of total suppliers across our supply chain. Through this programme, we also encourage them to enhance their sustainability performance, which will help them expand their businesses into regional players.

Meanwhile, we continue contributing to industry collaborations such as the CEO Action Network (CAN) and Malaysian Recycling Alliance (MAREA). Both promote the exchange of best practices and collaborative forums between the public and private sectors to drive commitment and actions for sustainable development and circular transition in Malaysia.

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## CARING FOR OUR STAKEHOLDERS

### BETTER SOCIETY

We strive to do our utmost to contribute whenever there is a national crisis. During the massive flood that inundated peninsular Malaysia in December 2021, we contributed drinking water, 100PLUS and condensed milk to flood victims through NGOs. RM400,000 in crisis assistance funds were distributed to over 200 affected employees.

Product-wise, we have been investing increasingly more in healthier options, as seen by the growing number of items that carry the Healthier Choice logo. Extending this commitment, we continue to champion well-being by encouraging Malaysians to adopt an active lifestyle. We also ride on 100PLUS' superior isotonic properties to remind Malaysians of the importance of staying hydrated. This year, we pioneered the 100PLUS World Hydration Day, which was celebrated with a four-day Hari Hidrasi Sedunia 100PLUS carnival held at the Pavilion in Kuala Lumpur. In conjunction with the event, we also distributed 100PLUS at LRT stations in the capital city and Stadium Sultan Ibrahim in Johor. In total, we reached 100,000 Malaysians through this massive initiative.



In conjunction with Hari Raya Aidilfitri, Sri Nona partnered with Pusat Pungutan Zakat - MAIWP on a CSR NONA Project. The company matched proceeds from every purchase of the limited-edition NONA Basmathi Ketupat, which was then channelled 100% to Pertubuhan Asnaf Al Barakh Malaysia towards supporting their school needs and facilities.

We also believe in playing our part to ensure that everyone's rights are respected. Last year, we conducted our first human rights due diligence assessment and drafted a Human Rights Policy. This year, we ensured control measures remained active through a second assessment and created greater awareness among employees via an awareness programme.

While caring for our external stakeholders, we naturally do our utmost to create the best possible environment for our employees. To attract top talent, we have conducted a Reward Benchmarking Exercise as part of our periodic review to ensure we offer competitive salaries against the industry. Following that, the company will make adjustments that align with our reward philosophy and position in the market.

It is heartening to see that our efforts to be an employer of choice are not in vain. During the year, we received several Human Resources (HR) awards and accolades, including five wins in the Malaysia Best Employer Brand Awards 2022 and a Bronze for Excellence in HR Communication Strategy at the HR Excellence Awards 2022 (Malaysia).



### BETTER PLANET

Because the environment affects everyone's well-being, we have been focusing more on our environmental impacts, particularly our carbon emissions and waste management, as these are the two most pertinent areas to a food and beverage company.

To understand and manage climate-related impacts on our business and stay accountable to our stakeholders,

we have conducted our inaugural climate-related impact assessment and identified material transition drivers and physical climate-related risks on our operations and supply chain. The results will be integrated into F&N's Enterprise Risk Management and positively direct the development of our climate strategy. F&N is also embarking on a phased implementation of climate-related disclosures in relation to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations this year, ahead of Bursa Malaysia's stipulated timeline.

In addition to the solar photovoltaic (PV) panels in Shah Alam, Pulau Indah and Bentong, our new plant in Wang Muang, Thailand, was also fitted with 1MWp solar panels. From now on, solar PV systems will be a default component for any new facility we build to increase the use of renewable energy.

Finally, we are delighted to be able to resume our F&N School Recycling programme after a two-year hiatus during the pandemic. The ultimate objective of this programme is to make recycling a part of everyday life by inculcating awareness in the young. In conjunction with National and Malaysia day, we also organised a "How to Keep Malaysia Green with R-Boy" poster competition as a supplementary programme that showcased the students' creativity and vision for a greener environment.

In Thailand, the Waste Bank and Recycling Project were set up in two local schools - Wattanodtia School, Ayutthaya Province, Thailand and Watkokmayom School, Ayutthaya Province, Thailand. The waste bank has provided tangible monetary benefits to the students of Watkokmayom School by selling the recyclables collected. Approximately THB150,000 was spent on improving the waste management infrastructure of the schools. This year, we introduced a reward programme as added encouragement for the students, where they could exchange recyclables with our products.





## PERFORMANCE REVIEW

Our performance for the year was respectable given the challenges faced, particularly the increase in cost of key ingredients and packaging used in our products, such as palm oil, skimmed milk powder and tin plates. Against this backdrop and a flood-impacted beverage business in Malaysia, we have maintained our growth momentum and significantly cushioned the impact of higher costs through prudent cost optimisation and internal efficiencies.

Strong demand from the recovery of economic activities and out-of-home consumption gave us the confidence to better align our prices to costs, contributing to much-improved performance. This was further boosted by extensive on-ground activations and promotions during the festive seasons.

Through strategic budgeting, we redirected marketing spending into resources where we believed we would reap optimum returns. Our good cost management strategy is about balancing product price and cost of goods sold to enable a reasonable margin instead of facing protracted margin deterioration.

Our brands continued to win in our core categories. 100PLUS remains the undisputed No. 1 Isotonic drink in Malaysia. We are also leaders in the Sweetened Condensed Milk and Evaporated Milk categories; in Thailand, we maintained our leadership in the Sweetened and Evaporated Milk categories; and in Cambodia and Laos, TEAPOT is the No. 1 Condensed Milk brand.

Our flagship product - 100PLUS - continued to make stellar progress. Despite a temporary supply disruption due to heavy floods impacting the Shah Alam plant in December, 100PLUS saw its sales increase by more than 25 per cent for the year. At the same time, F&NHB's recent introductions, such as 100PLUS ZERO and F&N Teh Tarik in Malaysia, TEAPOT ZERO and F&N Teh Tarik in Malaysia, TEAPOT Evaporated and Sweetened Evaporated Milk in paper carton format, and F&N Magnolia UHT Milk in Thailand, have performed above expectations in their respective markets.

### GROUP PERFORMANCE

For the year as a whole, the Group's revenue increased by 8.2 per cent from RM4.13 billion to RM4.47 billion as the gradual waning of pandemic restrictions led to strong domestic demand in Malaysia and Thailand. This was supported by our price adjustments and the first full-year contribution from our Food pillar.

Improved revenue and cost management measures, including price and trade discount adjustments, had significantly mitigated the impact of higher commodity and freight costs, flood recovery expenses and foreign exchange translation loss from a weaker THB. Export business also recovered from the margin erosion experienced in FY2021. With more timely price adjustments, and better product and market mix, the business delivered a high double-digit improvement in profit margin.

For the year, the Group's profit after tax contracted by 3.3 per cent to RM382.3 million from RM395.1 million in FY2021.



### Food & Beverages Malaysia

In Malaysia, effective marketing initiatives and price adjustments contributed to a 13.5 per cent increase in revenue to RM2.42 billion from RM2.13 billion last year. Together with improved margins and operational savings from the completion of significant capex projects - such as the Shah Alam ASRS warehouse and solar roof panels - operating profit grew by 71.9 per cent from RM97.7 million in FY2021 to RM168.0 million. This was also supported by contribution from Exports.

Excluding one-off non-operating items, F&B Malaysia's operating profit grew by 60.3% to RM186.4 million (FY2021: RM116.3 million).



### Food & Beverages Thailand

Recovery in out-of-home channels, new product innovations and double-digit growth in exports to Cambodia led F&B Thailand to record 7.6 per cent increase in revenue in Thai Baht terms. However, this translated into a 2.7 per cent increase in Ringgit Malaysia due to unfavourable forex translation loss from a weaker Baht. Effective loyalty programmes and expansion of distribution coverage further boosted sales for evaporated and sweetened condensed milk categories.

Higher revenue and price adjustments helped to partially mitigate the impact of significantly higher commodity prices, particularly for tin cans and milk powder. F&B Thailand recorded RM276.0 million operating profit for the year compared to RM369.4 million in FY2021.



### Exports

It was a challenging year for Exports because some markets - such as Africa and China - had yet to recover fully from the pandemic. At the same time, logistics disruption persisted, and freight costs continued to be high.

Guided by our new business intelligence tool, the team recalibrated our product and market mix with positive results. We reprioritised efforts to focus more on countries closer to home and saw encouraging increase in sales to Indonesia while adding Palestine, Bhutan, Suriname and Guyana to our network.

Although Exports from Malaysia were lower year on year, mainly due to Greater China and price-sensitive markets, operating profit improved significantly as a result of the higher selling price and strategic product/market mix. F&B Thailand saw its revenue for exports (excluding Indochina) decrease because of lower OEM orders.





## OUTLOOK & GOING FORWARD

FY2023 looks set to be just as challenging as FY2022 was – as raw materials will remain costly, while the security of supply chains cannot be assured. Added to this, there is a possibility of the world entering a recession. Yet, our performance in FY2022, and especially in the last quarter, lend us reason for optimism. We believe that various systems put in place, as well as the completion of various capex projects, will place us in a stronger position operationally and financially. This would be especially opportune as the year also marks our 140<sup>th</sup> anniversary.

Many projects and launches that were put on hold over the last two years are back on track. Of these, we are particularly excited about the launch of Teh Tarik in East Malaysia, and the reinvigoration of Nutrisoy and BORNEO SPRINGS brands. And, as all our solar PV panels are fully

energised, we hope to present powered-by-solar 100PLUS to our loyal fans – literally re-energising the brand!

FY2023 will also be the year in which we go more wholesome – as we put into gear up to RM800 million capex into the upstream fresh milk business in Ladang Permai Damai; commercialise our new RM20 million drinking water plant and warehouse in Kota Kinabalu, Sabah; and roll out plant-based beverages from our new Wang Muang plant. We are confident that these investments will open up many opportunities for future growth.

At the same time, we will be working closely with CocoaLand as we did Sri Nona to extract synergies and value creation from each other. We have exciting plans to grow our Halal Packaged Food pillar which holds immense potential.



## ACKNOWLEDGEMENTS

As always, I want to express my heartfelt appreciation to everyone connected with the Group for our ongoing success story. The list includes our shareholders, who provide us with their continued trust; our customers and consumers, who have demonstrated unwavering loyalty even when markets have been fickle; as well as our business partners and suppliers, who have worked with us to create some amazing synergies.

Finally, my gratitude extends to our Chairman and directors, who continue to demonstrate immense wisdom and foresight in guiding the Group through our bolder endeavours. And to all our employees, who truly are the cogs and wheels of this organisation. It is because of your dedication that we have been able to overcome the challenges of the last two years. Last but not least, I would like to warmly welcome new members from CocoaLand into our F&N family.

**LIM YEW HOE**  
Chief Executive Officer

