



FRASER & NEAVE HOLDINGS BHD

61st Annual General Meeting

Questions from MSWG



RE-ENERGISED



OPERATIONAL & FINANCIAL MATTERS



1



Since FY2020, the revenue of F&N has been in a growth trajectory, growing from RM3.99 billion to RM4.13 billion and then to RM4.47 billion in FY2022 accordingly.

However, the profits (both pre-tax and net) were declining year after year. Meanwhile, the PBT margin declined from 13.1% in FY2020 to 11.6% and 10.2% in FY2021 and FY2022 respectively.

As for FY2022, F&N profit-before-tax declined further to RM454.1 million from RM479.4 million a year ago, notwithstanding higher revenue recorded from product price adjustments in FY2022.

(Source: pages 84 & 85 of Annual Report 2022)

- a. On average, what is the quantum of price adjustments made on your products in FY2022?
- b. A declining profit and margin suggest that the extent of raising product prices was insufficient to fully offset the impact of rising costs.

Will the Company further raise product selling prices to preserve its profit margin? If yes, what is the quantum that the Company is looking at?

As commodity prices e.g., aluminium, tinplate, palm oil and freight costs are softening, does the Company foresee better margins going forward?

- c. What is the room to further streamline the cost of sales and other expenses to improve profitability?



1

(Cont'd)



OUR RESPONSE

- *The past few years have not been business as usual, with the COVID-19 pandemic followed by escalating commodity prices and inflationary pressures that is further exacerbated by the Ukraine war.*
- *As a Group, F&NHB was affected by commodity price and logistic cost impacts in excess of RM500 million cumulatively over the past two years.*
- *F&N is very conscious that our products are daily essentials to consumers in our markets. As such, we try to manage costs internally before increasing prices, and also to do so in phases.*
- *Our last round of price increases in both Malaysia and Thailand was carried out in the final quarter of the last financial year. Based on the measures taken to manage our risks, we are confident that the Group is in a stronger position to see better profit margins this year.*
- *Please be assured that we are constantly looking for ways to streamline our costs further and closely monitor commodity prices to ensure we deliver long-term value to our shareholders.*



2



Upon the acquisition of Ladang Permai Damai for RM215.59 million by F&N 65%- owned subsidiary Dagang Sejahtera Sdn Bhd (DSSB), it is reported that F&N will spend circa RM700 - RM800 million capital expenditure to venture into the upstream fresh milk business for downstream production and distribution of fresh milk.

- a. Please elaborate on the plan to set foot in dairy farming in terms of:
 - progress of land clearing
 - expansion phases and capex required for each phase
 - targeted number of cows and milk production
 - sources of funding et cetera
- b. The venture to upstream dairy farming is to help reduce F&N's reliance on imported milk and value chain cost per litre.

What is the ratio between local and imported milk sourced by F&N?

Based on F&N's projection, what is the expected reduction in cost per litre when the Ladang Permai Damai is up and running?



2

(Cont'd)



- c. The land size of Ladang Permai Damai (at 2,726.28 hectares) was way smaller than the Ladang Chuping in Perlis (at 4,454 hectares) which F&N intended to acquire back in 2019.

Does the land size matter for F&N to build the required economies of scale to run the dairy farming business sustainably and profitably?

OUR RESPONSE

- *All the above have been covered under CEO's presentation, which will also be available on our website after the AGM.*



3

The acquisition of the entire equity interest in Cocoaland Holdings Bhd has further strengthened F&N's Halal Packaged Food segment after the acquisition of Sri Nona Group.

- a. What is the current and targeted financial contribution of the Halal Packaged Food segment?
- b. How does the Group plan to grow the segment, whether via mergers and/or acquisitions or organic growth?

OUR RESPONSE

- *For the 12 months period ended 30 June 2022, Cocoaland generated RM230.9 million in revenue and RM28 million in profit for the year. (F&NHB Annual Report 2022, pg. 227, Note 9)*
- *Halal packaged food as a whole represent about 10% of the Group's bottom line. Just like our Exports pillar, we aim to grow the halal packaged food into another growth pillar over the next 3 to 5 years.*
- *Currently, we are focusing on the integration of the two businesses and look forward to leveraging the strengths of both organisations to generate synergistic values for shareholders. We will share more details when ready.*



4

For the December 2021 flash floods which adversely affected the Shah Alam plant, the Company had recognized RM18 million as interim insurance claims receivable for finished goods, raw materials, and packaging materials against estimated costs and losses of RM34.94 million (page 279 of AR2022).

At the same time, the Group will continue to engage its insurers to ascertain the quantum of damages and to expedite the processing of insurance claims.

- a. How did the Group utilise the insurance claim amount? What is the estimated claim amount for the remaining insurance claims?

OUR RESPONSE

- *The claim is a reimbursement of our loss and is utilised to replace damaged assets and cover for loss of profits.*
- *The total claim amount is within the range of RM40 million as we have estimated, of which RM18 million has been recognised and RM5 million has been received. The balance of the claims is still being processed.*



4

(Cont'd)



- b. F&N has formulated a three-line defence plan to prevent and minimize the impact of flash floods on its plants in the future.

What does the three-line mitigation plan entail? Which are the sites that are most prone to natural disasters?

OUR RESPONSE

- *1st line of defence aims to protect the entire compound of the Shah Alam plant through the construction of an outer wall and flap gates. The 2nd line is to protect the manufacturing building, where we have built flood gates and barrier panels to prevent water from seeping into the building. The 3rd line is to protect the machinery through raised control panels and brick walls around them.*
- *Naturally, our priority is the Shah Alam plant, but we are also assessing our properties at other locations based on our experience and implement recommendations where necessary.*



RE-ENERGISED



CORPORATE GOVERNANCE MATTERS



1



The Company resumed the practice of holding physical AGM for FY2022 in contrast to virtual AGMs for FY2020 and FY2021.

Compared to the physical AGM 2020, the total number of shareholders/proxies/corporate representatives who participated and voted remotely at the past virtual AGMs was higher and more questions were posed (page 67 of Corporate Governance Report 2022).

Moving forward, will the Board consider holding hybrid meetings to encourage more shareholders to take part in the annual event?

OUR RESPONSE

- *Thank you for your input. The board will consider available options, taking into account logistics and technical challenges for the best approach to engage with our shareholders.*



2



At the board level, non-independent non-executive director Dato' Jorgen Bornhoft attended four out of seven board meetings in FY2022, representing an attendance rate of 57%.

Meanwhile, at the board committee level, he attended two out of five and two out of four meetings for the Executive Committee and Sustainability & Risk Management Committee which he serves as a committee member.

(Source: pages 124 & 125 of AR2022)

What were the reasons for the absence of Dato' Bornhoft from these meetings in FY2022?

OUR RESPONSE

- *Dato' Bornhoft has not been able to fully commit time to attend Board and board committee meetings due to personal reasons. In this regard, he has expressed his clear intention to step down from the Board at the conclusion of this AGM by not seeking re-election.*



3

F&N engaged external consultant Aon Malaysia Sdn Bhd (AON) to review its directors' remuneration in October 2022.

For the exercise, AON has benchmarked F&N directors' remuneration for FY2022 against 36 listed companies with similar size and/or operating environment as the Company (Notice of Meeting dated 19 December 2022).

- a. As stated in F&N Directors' Remuneration Policy reviewed and approved on 6 August 2019, *"the competitiveness of total remuneration is assessed against companies in the food and beverages industry, companies with good corporate governance practices, companies of similar asset size and companies in which the Company's Directors are on board"*.

Who decided the scope of companies assessed - the Board or the external consultant AON?

OUR RESPONSE

- *The Board's brief to the independent consultant was to conduct the assessment against companies in the food and beverages industry, companies with good corporate governance practices, companies of similar asset size.*
- *Aon the independent consultant then identified and selected the companies to be included in the final report that was submitted to the Board.*



3

(Cont'd)



- b. Please elaborate on the process of shortlisting these listed companies for comparison and assessment purposes.

OUR RESPONSE

- (This particular question has been shared with Aon, the independent consultant and below are the answers provided.)*

The methodology of selection for the comparator companies was mainly based on two criteria as follows:

*Criteria 1: Listed companies with similar market cap and revenue [0.5 to 2 times] as F&NHB [i.e. RM7.2 billion (as of 1st June 2022) and RM 4.1 billion (FY2021) respectively]**

Rationale: Company size (represented by market cap/revenue) is a proxy of oversight responsibility placed on directors, which in turn is a major factor that influences NEDs' remuneration

Number of comparators: 16 companies

Note: () Banks are excluded since these companies are typically recognised as pay leaders amongst the market, which may therefore unfavourably skew the data upwards*



3

(Cont'd)



OUR RESPONSE (CONT'D)

- *Criteria 2: Listed companies with similar industry as F&NHB, capped to the first 20 largest companies by market cap on Bursa Malaysia [i.e. between RM34.0 billion – RM1.9 billion (as of 1st June 2022)]*

Rationale: Companies with similar operating environments provide a more meaningful comparison for F&NHB in terms of better positioning the company's NED remuneration amongst its industry peers

Number of comparators: 20 companies

- *F&NHB's NED remuneration is positioned against a combined peer group of the above 36 companies.*

