Management Response to Food Empire FY2020 Annual General Meeting Questions received via Email and Q&A link

1. What are the plans of Food Empire to generate higher return to shareholders? Will any form of M & A be on the agenda in the near term?

   Increasing long term shareholder return is an important corporate objective, and one of many challenges we face as a progressive business and a responsible corporate citizen. Primarily, we strive to do so by actively diversifying our income streams and investing into our businesses continuously to ensure that we are able to make a healthy return relative to capital invested, and these businesses will remain sustainable over time.

   In addition we will actively seek out strategic and commercial opportunities that are complementary or synergistic to our core businesses, be it in new markets or products. We regularly rationalise or restructure businesses that do not contribute to the Group's longer term plans and, if possible, we also try to unlock value through monetising or disposing non-core assets.

   In the near term, the Covid-19 pandemic remains as a global threat and international air travel is still restricted in many countries, along with movement controls and social distancing. As M&A generally involves in-depth due diligence, it is best performed with a degree of physical and social interaction. While the Group continues to consider M&A opportunities for faster growth, during this Covid pandemic period, we believe we might be restricted in considering M&A only in geographies where Group has a good level of understanding of the market and has some sort of management presence. However, the pandemic may present some attractive opportunities in general and we will be on the lookout for strategic collaborations that will enhance shareholder value. The Group maintains a healthy balance sheet and our core business continues to show resilience and strength which will enable us to consider a suitable M&A when the opportunity presents itself.

2. Sweet potato chips are popular with health conscious consumers due to their higher nutritional value. Any plans by Food Empire to expand into production of sweet potato chips and special flavour potato chips (salted egg/ coffee-flavoured etc.) that have higher gross margins?

   While there is a growing consciousness toward healthy snacks, the gap between mouth and mind remains when it comes to good taste of food especially snacks. Taste preferences vary from market to market. Up to now, the niche market for healthy snacks is based on emphasizing specific functional or nutritional benefits. As for flavouring, what is popular in one market might not be popular in another.

   The sales of perennial flavours remain core while seasonal special flavours can add impetus to generate promotional sales volume. To this end, we have had introduced sweet potato chips in Asian markets but its taste and appearance is less interesting to other markets. We have identified different localised flavours including exotic ones for different markets globally. These have contributed to higher sales though seasonal but not necessarily higher margin.

3. Any plan to sell potato chips and coffee sachets in vending machines located at high traffic areas in Singapore or overseas?

   The vending machine market is a retail business proposition that presents a different set of challenges and opportunities. For Singapore, the market and segment is too small to be of interest for Group to be involved, while in our overseas markets, most sales still happen through traditional channels or the modern trade. However we have partners or distributors who have vending operations and we are always exploring ways to cooperate with them.
   As trends and channels go through constant transformation in all markets with time, we will explore every business segment (including the vending machine business) for opportunities to expand the Group's sales and distribution network. We regularly monitor developments in our markets and will address major changes in consumer preferences and buying habits by adjusting our go-to market strategies accordingly.

4. How has sales volume been affected by average selling price increases?

   The Group owns a family of strong brands and products catering to different consumers in our key markets, which gives us certain degree of flexibility in effecting price changes. In making pricing decisions, we will generally consider the competition and price elasticity for all product groups, amongst other factors, to ensure there is no adverse impact to the Group. So far, the average selling price increases have not really affected overall sales volume.

5. Given the shift to social media marketing, can you break down how much is spent on social media marketing compared to say sponsorships?

   We have witnessed a growing trend of Advertising and Promotion spending in the digital and social media space, which is expected to continue. For FY2020, in our Russia market, digital media was 80% of our total media budget, while in Vietnam, around 45% of media spending is in the digital space.

6. In Nov 2017, Food Empire Group invested USD0.6 mil into Positive Food Ventures Pte Ltd ("PFV"), which owns the Brewhouse brand and provided a USD2 mil loan to Brewhouse Ice Tea. For FY 2020, both the equity investment and shareholder loan had been fully impaired. Can the management explain the full impairment?

   Positive Food Ventures ("PFV" or "Company") was acquired in FY2017 and was intended to be a testbed for the Group's foray into the India consumer retail market. PFV management team had already developed a brand of their own and Ready-to-Drink product samples for soft launch in India, which typically takes 1-3 years to develop and will incur costs and time.

   Although the Company managed to achieve some modest success, the operating environment was painfully difficult and the business needed higher than expected costs to scale up the operation. With the advent of the Covid-19 pandemic, we decided in FY2020 to rationalise its shareholding in order to better manage the risk-reward payoff for the Group. After assessing the recoverability of this investment and taking into consideration the net tangible liability of PFV, the Group decided to make a full impairment for the loan and restructure the business.

7. How did the impairment loss on loan to an associate of US$2,130,000 arise and whether the company is prudent when making the loan?

   PFV was 80% owned by Food Empire Group prior to the restructuring in FY2020 that resulted in equity dilution and becoming an associated company of the Group. Prior to the restructuring, an interest-bearing shareholder loan was granted to PFV in the normal course of business to provide working capital support for the Company's operation and business expansion over a period of approximately two years. The Group could do so by either injecting new capital or by way of a loan. The loan was granted only after careful assessment of the budget and forecast provided by PFV at that point in time.

8. What are the risks given that the company have given corporate guarantees of US$178,752,000 which is almost twice the company's liabilities?

   Most of the corporate guarantees are given to financial institutions in order to obtain bank loans and other credit facilities that are necessary to support the Group's key operations or expansion plans. At any point in time, corporate guarantees are higher than liabilities due to ongoing repayment of bank loans after the initial drawdown, and also because of the Group's prudent utilisation of short term credit facilities granted. The amount of outstanding bank loans represent the maximum default risk exposure to the Company. As the Group is able to meet its financial obligation, management is confident that the risk of bank calling on these guarantees is low.

9. I note that "26,350,000 options were granted for 2012 Option Scheme" and "45,215,000 options were granted for 2002 Option Scheme"; combined, the number of options granted exceeds 10% of the total number of shares. How do you address the high number of options granted compared to other companies given the dilutive effect of issuing shares at a discount?

   The remuneration package for the Group's key executives comprises fixed basic salary, short term performance incentive and long term incentives. The Employee Share Option Scheme (ESOS) is currently the only long term incentive plan the Group has adopted to incentivize and retain key executives of the Group who have played an important role in the long term success of the Group. As the Group operates in multiple emerging markets with different local remuneration practices, a common equity-based plan is necessary to align the interests of staff and shareholders. The ESOS has proven to be effective in retaining the Group's key executives as most of the option holders, who have helped the Group to successfully overcome many crises, have remained with the Group.

   The exercise prices of the options granted under the 2 schemes were determined based on the average of the 5 consecutive days closing market prices immediately prior to the date of grant and not at a discount to the prevailing market prices.

10. How do the entries into food manufacturing hedge against the price of commodities? Would the company not be substituting ingredients (e.g. freeze dried or spray dried coffee) price exposure, with raw commodity (e.g. coffee bean) price exposure?

    Entry into ingredient manufacturing like Spray Dry Coffee, Freeze Dry Coffee or Non Dairy Creamer gives us better control over costs of these ingredients. At the same time, it also gives us better margin due to value addition. While fluctuation in commodity price like green coffee or Palm oil is beyond our control, we have better control over the conversion cost from raw material to finished product. Hence, we will not be totally exposed to market forces as in the past.

Besides using ingredient manufacturing to support our coffee mix and instant coffee packing businesses, we are also able to generate substantial third-party sales. Hence ingredient manufacturing not only helps us to better control costs, it also helps us to develop a new B2B business that increases Group revenue and profit.

11. Selling and marketing expenses US$35,996,000; general and administrative expenses US$34,786,000

    a) Can the management share the country where the largest reduction in selling and marketing expenses is coming from?

    The largest reduction in Selling and Marketing expenses is coming from Russia.

    b) Are (i) selling and marketing expenses; and (ii) general and administrative expenses expected to return or to (or surpass) pre-covid levels (i.e 2019) in 2021?

    For 2021, Management do not expect these expenses to return to or surpass pre-covid levels as the effects of the global pandemic is still being felt across most of the Group's markets and the global healthcare crisis is expected to last beyond 2021. Movement restrictions and limit on group activities will also par down many offline activities, thereby contributing to reduction in overall expenses.

12. Please address whether the lease payment of US$ 1,780,000 made to Mr Sudeep Nair is made on an arm's length basis. What are the properties used for and whether the company has no better offers from outsiders?

    We would like to make a correction to the question, which contains a factually inaccurate statement.

    The lease payment of US$1,780,000 was not made to Mr. Sudeep Nair, but to companies associated to Mr Sudeep Nair, for which he is only one of a number of shareholders. Food Empire Group holds 50% equity interests in all these companies. This was disclosed in the Corporate Governance Report under "Interested Party Transaction" ("IPT") and in various Notes to the Annual Report.

    All IPT disclosures are made on a quarterly basis to the Audit Committee ("AC"), which has a majority of independent non-executive directors. The AC will review and ensure that the IPT transactions are in line with all regulatory requirements, are carried out on commercial terms and are not prejudicial to the interests of the Group.

    The lease payment relates to rental of various real estates in Russia that are used by the Group's business operation, such as offices, factories and warehouses, and is an integral part of the Group's Russia operations. The rental amount was determined based on arm's length basis in consultation with reputable and independent real estate consultants. Mr Sudeep Nair is not involved in the day-to-day management of these companies.