

Food Empire FY2019 Annual General Meeting – Questions and Answers

The following questions were received by Food Empire Holdings Limited (“**Company**”) from 8 – 13 April 2020 via the Question & Answer web-link created for Food Empire FY2019 AGM, scheduled on 23 April 2020. Management’s responses are in blue.

1. Historically, the foreign currency risk has played a major impact in the company's business activities and financial results.

Referring to Page 144 of the Annual Report on Sensitivity Analysis, I would like to understand the financial impact on PNL given the current USD strength against all major company's functional currencies. Assuming the current exchange rates persist for the full year, how much would be a ball-park impact in US\$'000?

The sensitivity analysis outlines only the impact of movement of the Group’s major functional currencies against US\$ based on its Balance Sheet exposure at a particular point in time (in this case 31 Dec 2019). However, it does not take into account the impact of currency devaluation on the Group’s overall margins, which will also be affected but mitigated to a certain extent by natural hedge as a portion of costs is denominated in its functional currency.

In reality, assuming the current exchange rates persist for the full year, the Group would consider raising the selling price of its products in multiple tranches in line with other market players to offset part of the margin erosion in affected territories. This is a common practice and it is possible because of the Group’s strong market positioning. The Group has successfully done so in past crises when the Russian Ruble fell by more than 30%, and also in its core Ukrainian and Kazakhstan markets. While there will be initial negative impact due to volatility, it is academic to try and derive a ball park number that reflects realistic market dynamics.

2. Referring to the Executive Chairman's Message: Currently our core businesses are largely unaffected by the outbreak as the nature of our products are mainly for home-based consumption. However, going forward, we may encounter some temporary disruptions in both our production and sales due to the lockdown imposed in several countries which may restrict business operations and the movement of goods and people

Can the Company give further details on the current disruptions faced due to the lockdown as on 15th April? Also can the company comment on how it is planning to overcome these disruptions via supply chain inventories?

When the Chairman’s Message was first crafted, we see lockdowns in certain countries like China and Korea. In the weeks following, the global infections and fatalities rise tremendously resulting in more lockdowns and movement restrictions. Operations are largely curtailed on a global scale. We are facing similar difficulties in many markets with the closure of retail shops and supermarkets and restrictions in distribution of goods and operating of factories. We have applied for permits to run our various factories in countries like Russia, Ukraine, Malaysia, Vietnam, India, etc. In most cases we were granted permission to operate albeit at lower capacity in terms of manpower. We have tried to keep our distribution moving within restrictions set.

To further add, under lockdowns imposed by most countries there will always be drop in retail sales as consumers will prioritize grocery and medical purchases over all others products. However, we do not expect the lockdowns to be in effect for longer than a few months. During the lockdown phase which is currently what we are facing, we will try to prioritize supplies of core SKUs and also work with main groups of retailers to maximize coverage.

3. From the Group CEO's message: Following the success of our first Non-Dairy Creamer (“NDC”) plant, which is currently fully utilized, the Group has also decided to embark on its second NDC project in the same location in Malaysia. We anticipate that the plant will be completed within a 24-month period and begin commercial production from FY2022 onwards.

Can the company guide on how much Capital Expenditure is planned for this investment? And also how it will be funded?

Total capital expenditure for the new NDC project is around US\$25 Mil. This will be funded by internal sources as well as external bank loans.

4. From the Group CEO's message: Moving forward, the Group will continue to invest to grow the Vietnam business within the South-East Asia region

Can the Company share on what is the expected CAGR of the Vietnam Market as per Market Research Companies or its internal assessments?

The Group has established itself as a niche market leader, particularly in Southern part of Vietnam with our flagship Café Pho and we have achieved double digit Compounded Annual Growth Rate over the last 5 years. There is still significant room to expand into the mass market and other parts of the country. We have been constantly putting in efforts to develop and market new products and future growth will depend on whether we are able to make a meaningful breakthrough.

5. Can the Board share on what specific factors at Food Empire will it consider in sustainability of Special Dividend of 1 cent for Financial Year 2020 and beyond?

At what stage, would the current Covid-19 crisis impact the Special Dividend plans?

The Group achieved a record year and a good set of results in FY2019. In recognition of our shareholders' support, the Board decided to propose a higher payout in line with higher profits.

Special Dividend is sustainable as long as the Group continues to achieve good results and its cash flow supports our planned expansion and provides a buffer for the immediate future and any eventuality like this Covid-19 pandemic. As we operate mostly in emerging countries with volatile currencies, we also have to make sure that businesses are in a stable state, taking into account global macro-environment and the economic conditions of the countries where we operate.

Currently, it will be difficult to estimate the longer term impact of Covid-19 but most economists and companies worldwide generally expect things to be normalized in 2021. We also believe that F&B companies will be able to stabilize the operations and get into recovery and growth phase from 2021 onwards, assuming that lockdowns will be eased in phased manner over the next few months.

6. Can the company provide a business update of its Associate, Caffè Bene?

Although the Group has written down its investment in Caffè Bene to zero, it continues to operate and ended in the red for FY2019. Earlier, Caffè Bene had graduated from a Court rehabilitation process with a debt restructuring plan. So far, it has been able to service its debts repayment. In recent months, the Covid-19 situation has affected most retail businesses in Korea and likewise Caffè Bene is also not spared, but it will continue to work with industry partners to keep business continuity in its recovery process.

Furthermore, referring to Page 106, can the management explain on how this associate's financial results turned into a Loss of 1.9M\$ in 2019 vs profit of 5.3M\$ in 2018?

The Associates' profit in 2018 was mainly due to one-off accounting gains recorded by the Group's investment in Caffè Bene. In the absence of such gains, Caffè Bene would have made a loss of US\$3.9 Mil for 2018. It should be noted that Caffè Bene has been written down to zero and any losses will not have any financial impact to the Group.

7. How do the Company's investments in Associates fit into its M&A Strategy – specifically at what point in Associate's performance does the Company consider full acquisition of its Associates?

Our Associates might fit into M&A strategy provided we see that as a Group, we can add value to the business of the Associate and by doing so, increase the earnings for the Group meaningfully through a higher stake in the Associate. Likewise, it could also make sense if we see that our active involvement in management of the company can increase earnings for the Associate, and both parties view the collaboration to be mutually beneficial. Hence, the

consideration of a full acquisition for an Associate would be largely dependent on the incremental earnings the Associate may add to the Group and the alignment of strategic interests.

Can the company provide an overview of the other Associates business and financial performance as per page 106 (Triple Ace Ventures, Empire Tea, 101 Caffe, Simonelo)?

Triple Ace Ventures and Simonelo are the Group's property arm supporting its Russian business, while Empire Tea and 101 Caffe represent the Group's small but strategic interests in tea and coffee capsule business respectively, which open up new opportunities for the Group without getting directly involved in the day-to-day running of the business. In terms of financial performance, both Empire Tea and 101 Caffe chalked up revenue growth in 2019 but their profitability were lower compared to 2018. In the case of Empire Tea, it was due to higher operating and finance expenses and as for 101 Caffe, it was due to aggressive business expansion, which resulted in higher marketing costs and depreciation.

8. How has the current lockdown affected Food Empire's ability to procure raw materials (e.g. coffee beans)? How large an impact will this have on Food Empire's ability to continually produce its instant coffee powder?

The lockdown has not significantly affected Food Empire's ability to procure raw material. There were some logistical challenges resulting in delays in shipments but the Group continues to receive ingredients necessary for continuous production.

9. Malaysia has implemented a lockdown that has lasted for more than a month. Is Food Empire's Non Dairy Creamer plant operating during this period?

Yes, it continues to operate with around 50% manpower. Output is also affected and things will only stabilise when the situation normalises.

10. The Company has done a great job in entering the Vietnamese market. May I check the progress of the firm in the China and Philippines markets? (e.g. revenue, profitability)

Neither China nor Philippines is part of the Group's core market segments or substantial contributors to the Group at any point in time. We view them as potential markets of interest for the future and we are only exploring our entry strategies for these markets and in a phased manner to limit our losses. Both these markets are difficult markets that have entrenched local and MNC players.

11. Since we have built coffee plants in India, are we considering to penetrate the India's consumer market? Appreciate if you can share the possible rewards and challenges.

The Indian Coffee plant is based on B2B model. The plant is manufacturing instant coffee, which is mostly exported out to our own factories in Russia, Ukraine, Malaysia and Vietnam. Other than that, the plant is also doing third party sales to countries in Africa, South East Asia and Eastern Europe.

We do not have any immediate plans to launch our own brand in India in the short term. However, since we have manufacturing facilities and infrastructure we shall do test marketing at an appropriate time in the future.

India is mainly tea drinking country and coffee drinking culture exists mainly in southern part of India. Comparatively India is a small market for instant coffee consumption, dominated by some international Brands and couple of local Brands.

12. We have diversified from Russia, Ukraine and CIS countries market but it still takes up about 60% of revenue? Is there a target that the Company is aiming at to bring it down further? (50%? 40%? 30%) and the projected timeline to do that?

We are aware of our dependency on a few core markets and we have sought to rectify the imbalance over the last 8 – 10 years. Currently the Group has diversified geographically through organic means and as it can be seen, it takes a lot of time and investments to do so. Market building is not an easy task and we do not have a target percentage nor a timeline for that. Once Covid-19 situation stabilizes and we can operate normally, achieving results similar to 2019 levels we will continue to pursue M&A as a strategy to expedite our diversification efforts, in addition to our organic expansion.

13. Can do a sharing of company's future growth plan for the next 5 to 10 years?

Post Covid-19 when things return to normal, the Group has plans in place to drive organic growth across all its core markets. We have also announced plans to invest in expansion of NDC and Instant Coffee manufacturing units, which will assure the Group's growth over the next 5 years. Additionally we will pursue appropriate M&A targets to expedite our growth and diversification efforts.

14. For page 10, can provide revenue by geographical regions in local currency as well?

There may be many markets within one region and it will not be possible/meaningful to split up in local currency for the purpose.

15. For page 10, can provide % breakdown of top three markets in South East Asia regions?

For FY2019, the top three markets in the South East Asia region are Vietnam, Malaysia and Myanmar respectively. Overall, they contributed 26.7% to Group sales.

16. Food Empire Group had previously invested USD 6 mil to acquire 80% of Brewhouse Ice Tea in November 2017 and provided a USD2 mil loan to Brewhouse Ice Tea. Is Brewhouse Ice Tea on track to meet 10,000 points of sale in 2020?

Just a correction, Food Empire Group invested USD 0.6 mil (not USD 6 mil) into Positive Food Ventures ("PFV"), which owns the Brewhouse brand. Brewhouse products received good initial response but actual sales were much lower than projections due to high retail price and premium positioning of the product. Thereby 2019 was a year of consolidation to limit the point of sales and to rework on the concept and add new product lines, which we hope to launch at lower price points. Unfortunately there has been delays to identify new vendors and PFV hasn't met our expectations in terms of overall results and challenges remain. As India is a very difficult consumer market that demands long periods of investments and losses for startup projects, the Group is re-evaluating its options in line with our rationalization of under-performing businesses amidst this Covid-19 situation. For FY2019, contribution of PFV was immaterial to the Group.

17. Can you list the top three currency risks?

The top currency risks for the Group are predominantly Russian Ruble and Ukrainian Hryvnia.

18. With the cessation of quarterly reporting, will the company be providing regular updates on its performance?

Yes, we will continue to provide regular updates to shareholders, such as Press releases and simplified reporting in the quarters where we are not doing full quarterly reporting. ----END----

Food Empire Extraordinary General Meeting – Questions and Answers

The Company has also received the following question, via the Question & Answer web-link, which is related to the agenda of the Extraordinary General Meeting of the Company, scheduled to be held on 23 April 2020. Management's response is in blue:

1. With the recent low prices, why are share buybacks not conducted more frequently?

The current Covid-19 lockdown across all countries doesn't allow the Company to be aggressive in share buy backs because it is difficult to estimate the time period for the situation to be fully normalized. Hence, it is only prudent to conserve all financial resources to invest in our core businesses. ----END----