

## Food Empire FY2019 Annual General Meeting (“AGM”) – Questions and Answers 2

The following questions were received by the Company from 14 – 23 April 2020 via the Question & Answer (“Q&A”) web-link created for Food Empire FY2019 AGM, which was held on 23 April 2020. Management responses are in blue.

1. Can the chairman update on the progress of the investment in Positive Food Ventures in India (Brewhouse). How much losses are incurred in 2019, and what is the recovery status of the shareholder loan extended? What is their capex for 2020?

Positive Food Ventures incurred a net loss of around US\$1.2m for FY2019. As we have responded in Question 16 of the earlier AGM Q&A, we are re-evaluating our options in line with our rationalization of under-performing businesses.

2. Is there scope to improve the working capital management of the company? The inventory level is increasing every year - will it further increase with the opening of the Indian manufacturing plant?

The Group reviews its working capital needs regularly. Generally, an increase in inventory level indicates a build-up of finished goods in certain markets in anticipation of higher sales. With the opening of our second Indian manufacturing plant, inventory levels will be expected to increase.

3. How has Covid-19 impacted the operations and various markets of the company?

Our business will be affected by lockdowns, which are being imposed in one form or another by countries around the world. A lockdown affects all sectors of the economy, directly and indirectly, as most governments will allow only essential services to operate. Even though we are in the food and grocery sector where consumption is less affected, it is inevitable that footfall at shops will be reduced. Moreover, with jobs at stake everywhere, general consumer purchase will also decline as they will prioritize their spending. We see this happening across most countries impacted by the current state of lockdowns.

Most of our factories are working at lower utilization rate as mandated by respective governments and hence there are some constraints on supply chain. Accordingly, we will adjust our production to core SKUs where demand is the highest.

4. When does the company expect the operations to resume to normalcy?

It will depend on when each country relaxes its lockdown and to what extent these measures will be eased. According to most experts, many governments may relax lockdowns in a phased manner over weeks and months, with many restrictions still in place. However, we believe that most markets may not lift their lockdowns until June 2020.

5. What is the company's outlook for the year?

Covid-19 has negatively affected most businesses around the world and we are no exception. Food Empire is fortunate to be in the food industry with established brands in our core markets. However, as long as lockdowns remain, both revenue and bottom-line will be impacted in the short term. Assuming lockdowns are relaxed in phases from June 2020 onwards, business environment should improve in the second half of the year, as the gradual lifting of lockdowns will enable company to resume normal operations. Meanwhile, we will continue to work in our markets within restrictions and with whatever resources at hand to operate and reach out to our consumers.

6. I refer to page 7 of the Annual Report about “Executive Chairman’s Message”. Under “Outlook”, it was stated that “... going forward, we may encounter some temporary disruptions in both our

production and sales due to the lockdown imposed in several countries ...” With “the closure of retail shops and supermarkets and restrictions in distribution of goods and operating of factories”, did Food Empire over-stock inventories such that the Group will face more write-down in inventories in 2020?

Due to Covid-19 uncertainties we are increasing inventory levels of raw materials and finished products at our various plants and markets to meet uncertainties in supply chain due to lockdowns that may delay shipments and movements. These excess inventories can be adjusted back to normal once the world come out of Covid-19 uncertainties. However, we do not expect increase in write off of stock as the increase is temporary and our products usually have long shelf life.

7. I refer to page 6 of the Annual Report about “Executive Chairman’s Message”. Under “Financial Overview”, in the second paragraph, Chairman spoke about “rationalization of underperforming markets such as the Group’s Myanmar market, partly offset by the growth in the Group’s Vietnam market”. What is the difference(s) between Myanmar market and Vietnam market? What exactly went wrong in the Myanmar market?

The Group had decided to enter the Myanmar market due to its underlying potential. At that point in time, our focus was to launch our brand of 3-in-1 coffee and the industry appeared promising with many established players. Unlike Vietnam, foreign companies were not allowed to operate on their own and we had to find a local partner. Importation was also not allowed for 3-in-1 coffee mixes.

Due to the bureaucratic environment, things were moving slowly and we had to invest time and resources to overcome these issues. However, these hurdles were manageable compared to the devaluation of the local currency Kyat against USD, which affected everyone in the market, including market leaders, who were unable to increase selling prices to make up for lost margins. Most companies continued to operate at low or negative margins while waiting for prices to readjust. Finally, we decided to exit the Myanmar market to stem further losses in line with our rationalization of underperforming markets.

On the other hand, Vietnam has not had any major currency issues and many foreign companies have been operating in Vietnam for decades, so it has a relatively more suitable environment to build a business.

8. In addition, under Question 4 of the company announcement on 15 Apr 2020, it was stated that “The Group has established itself as a niche market leader, particularly in Southern part of Vietnam ... There is still significant room to expand into the mass market and other parts of the country.” What will Food Empire have to do to become as established as some entrenched local players like VinaCafe & other MNC players?

Food Empire has managed to build a niche brand and gain a respectable market share in Vietnam in just over 8 years with limited resources. We have put in place a team of passionate professionals as well as developed the necessary infrastructure and network to keep growing. We shall continue to invest in our business by adding to our product lines and expanding our reach. Our aim is to continuously develop new products and work is still carrying on even during this period of lockdown.

Compared to Food Empire, many established local players and MNCs have a head start in the Vietnam market with longer operating history and bigger base of consumers. Unlike VinaCafe, which was acquired by Masan Group, we have built our brand organically. MNCs like Nestlé have also been operating on a very large scale over last few decades and continues to invest heavily.

9. Moreover, under “Strengthening of Global Market Shares”, it was stated that “... MacCoffee – continues to hold the largest market share in Russia’s coffee mix market. Additionally, it is also the leading coffee mix brand in most of the Commonwealth Independent States (“CIS”) countries.” What are MacCoffee’s closest competitor(s) in Russia as well as CIS countries?

What is the % difference in market share respectively? How much more market share did MacCoffee gain in the last financial year?

The biggest competitors in our core markets are generally MNCs such as Nestlé (Nescafe) and JDE (Jacobs). MacCoffee as a brand maintains leadership of coffee mix segment in Russia & CIS countries and along with our other brands of coffee mix, we have market share of around 50% or more.

10. I refer to page 9 of the Annual Report about “Group CEO’s Message”. In the 10th paragraph, in its last sentence, it was stated that “Upon completion, it will **double** our current NDC capacity and enable the Group to broaden its Business-to-Business customer base by providing customized and valued-added products.” Can Food Empire explain and give some examples.

The NDC expansion project will roughly double our current output capacity. It will enable our factory to offer a wider range of NDC product specifications based on feedback from the market. The added facility will upgrade our product development capability to meet the specific requirement of customers in terms of product performance attributes and volume. The objective is to be able to cater for specialty as well as mass-volume product demand by both existing and new customers in the region and beyond.

11. I refer to page 12 of the Annual Report about “Financial Position”. In the first paragraph, it was stated that “Property, plant and equipment increased US\$30.4m to US\$99.3m as at 31 December 2019 mainly due to the expansion of the Group’s subsidiary, Indus Coffee’s manufacturing facility in India.” What impact has Food Empire faced from the termination of Amaravati project so far?

Our project in India is not connected with Amaravati project in State of Andhra Pradesh. Hence, the termination of Amaravati project has no impact on our project.

12. I refer to page 94 of the Annual Report about “Property, Plant and Equipment”. It is noted that US\$38.98 9m additions of Capital work-in-progress in 2019. I believe US\$30.4m comes from NDC plant in India. Where did the balance US\$8.589m additions of Capital work-in-progress comes from? Other than the budgeted capex of around US\$25m for 2nd NDC project in Malaysia, what is the other budgeted capex for Food Empire like in the next 2-3 years?

Approximately US\$37.3m of the Capital work-in-progress as at 31 Dec relates to the second instant coffee plant (Correction: It should be instant coffee plant and not NDC plant in India as stated by the shareholder) in India while the balance of approximately US\$1.69m are made up of new and replacement assets for the existing operations within the Group. Besides what was mentioned, we do not expect any major budgeted capex for the next 2-3 years.

13. I refer to page 108 of the Annual Report about “Intangible Assets”, particularly “Sensitivity to changes in assumptions”. Can the management share the change required (in key assumptions) for recoverable amount to equal the carry amount?

As highlighted in page 108 under Note 17, any changes in any of the key assumptions used will affect the recoverable amount of the value-in-use calculation. As there are more than one variable stated here that can affect the recoverable amount, we will not be able to estimate the change that is required for the recoverable amount to equal the carry amount.

14. I refer to page 33 of the Annual Report about “Remuneration Matters”. For the top 2 Directors, their remuneration bands have increased by S\$0.5m each from “S\$1,500,000 to S\$1,749,999” in 2018 to “S\$2,000,000 to S\$2,249,999” in 2019. Moreover, “The aggregate total remuneration paid to the top five key management personnel (who are not the Directors or the Group CEO) has increased by S\$631K from S\$3,402,000 in 2018 to S\$4,033,000 in 2019. Can the Remuneration Committee share what were the key factors for the increase, and how much is attributed to each of these factors?

The increase in the compensation of the 2 Executive Directors (EDs) and the 5 Key Management Personnel (KMPs) not on the Board in 2019 is due to an increase in their basic salaries as well as an increase in the variable components. The variable components are largely pegged to the net profit after tax of the Group for the EDs and corporate executive staff, and to the net profits of the respective markets for the other country managers and key staff. As the net profit for 2019 was at a record high compared to 2018, the compensation under the variable components increased as a result. The compensation policies for the EDs and the KMPs come under the purview of the Remuneration Committee which meets regularly to approve the payment of such compensation.

15. I refer to page 42 of the Annual Report about “Interested Person Transactions”. It is noted that US\$2.006m of lease payments were made to “Simonelo Limited and its subsidiaries”, which are companies associated to Group CEO. Can the Audit Committee share where these properties are, and what are they used for? How does the Audit Committee ensure the lease payments are at arm’s length?

These properties relate to the Group’s office premises at Business Center Monarch, Moscow, and to the factory, warehouse buildings and administrative office in Yakhorama, Moscow Region used for the Group’s production. The rental rates for these properties were determined on arms’ length basis after taking into consideration the expert opinion of independent property valuers and consultants and other information on the prevailing rental market at the relevant times.

16. I refer to page 138 of the Annual Report about “Credit Risk”. It is noted that there was US\$40.667m trade receivables as at 31 Dec 2019. Can the Audit Committee share how much has been collected so far? Any increasing difficulty in settlement? If so, what do the Audit Committee plan to do?

To date, a substantial part of the US\$40.667m has been collected. At the moment, we do not experience increasing difficulty in recovery.

17. How do our Executive Chairman Mr Tan Wang Cheow and Group CEO Mr Sudeep Nair apportion management time between Eastern Europe and Asia?

The demarcation of functions is explained on Page 29, Note C of the FY2019 Annual Report.

18. Can the Board consider having a formal dividend policy with an “at least x% of net profit after tax” criteria?

Currently the focus for the Group is to overcome the challenges posed by Covid-19. We will address the possibility of any formal dividend policy at the appropriate time in the future.

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