Issuer: Food Empire Holdings Limited

Security: Food Empire Holdings Limited

Meeting details:
Date: 24 April 2017
Time: 15:00H
Venue: Carlton Hotel, Empress Ballroom 4 & 5, Level 2, 76 Bras Basah Road, Singapore 189558

Company Description

Food Empire Holdings Limited operates as a branding and manufacturing company specializing in the food and beverage industry. Its products include instant beverage products, frozen convenience food, confectionery, and snack products. The company offers beverage products comprising regular and flavored coffee mixes and cappuccinos, chocolate drinks, and flavored fruit teas, as well as markets instant breakfast cereal, frozen foods, and snack items, such as potato crisps; and coffee and non-dairy creamer to other food manufacturers under its B2B arm. In addition, it engages in the marketing and sale of instant food and beverages; owning or leasing real estate properties; procuring and selling raw materials, processed and non-processed food, and finished goods; licensing, management, and finance support activities; ownership and leasing of factory space and equipment; providing royalty and trade-mark contract, trade and marketing, and office administrative services; and operation cafes and restaurants. The company offers its products under the MacCoffee, Petrovskaya Sloboda, Café Pho, Klassno, CafeRite, NutriRite, Hillway, Hyson, OrienBites, and Kracks brands. Food Empire Holdings Limited sells its products to approximately 50 countries, including Russia, Ukraine, Central Asia, China, Mongolia, Indochina, the Middle East, Africa, Europe, and North America. Food Empire Holdings Limited was founded in 1992 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=F03)

Q1. The turnaround in 2016 was broad-based and the group performed better in most of the main segments although Kazakhstan and CIS markets lagged in the recovery. The group's Indochina segment continues to grow impressively. Total segment revenue hit US$40.1 million in 2016, from just US$3.2 million in 2012. The segment's result was US$2.0 million, up from US$1.5 million in 2015 (page 116 – Segment information).

a) **Can management help shareholders understand the key drivers of growth in the Indochina segment? How much more can the group grow in Indochina?**

b) **What is the breakdown of sale according to product group in the Indochina segment?**

c) The group has set sights to deepen market penetration in China for 2017 (page 9). **Can management share the market entry strategy for China? Are the market dynamics of the Chinese market very different from Indochina and the group's other key markets?**

Also, the investment in Caffe Bene is in line with the group's growth strategy to "expand along the entire value chain of the F&B industry" (page 9). Subject to the final purchase price allocations, the total purchase consideration is US$7.34 million for the 19.6% stake in the associated company, Caffe Bene Co., Ltd. This is a significant expansion along the value chain that is very different from the group's current core operations.

Further to the investment, the group has made a loan advance of US$4.7 million to the associate.

d) **Can management elaborate further on the synergies that Caffe Bene offer? Has the group realised any of the potential synergies?**

e) **What are management's projections of the time and capital needed to turnaround Caffe Bene?**

Q2. In the Risk management policies and processes section (page 35), it was disclosed that:

In view of changes in the Group's business processes, the Group has become more exposed to exchange risk. In FY2016, the Group had a natural hedge ratio of 46.8% (FY2015: 48.8%), which indicates the level of purchases and major operating expenses that are denominated in the functional currency of the operating units.

The level of natural hedge ratio is shown in the table below:

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Natural hedge ratio (%)	84.0%	88.1%	86.2%	57.4%	41.9%	48.8%	46.8%

(Source: Food Empire Holdings Limited Annual Reports)

a) **Can management explain the changes in the group's business processes that led to the drop in natural hedging?**

b) **Can shareholders get a more holistic overview of the group's strategy to mitigate currency risks?**

c) **Has the board set a long-term target for the group's natural hedge ratio?**

Q3. Guideline 2.2 of the Code of Corporate Governance 2012 (Code) issued by the Monetary Authority of Singapore states that:

2.2 The independent directors should make up at least half of the Board where:

(i) the Chairman of the Board (the "Chairman") and the chief executive officer (or equivalent) (the "CEO") is the same person;
(ii) the Chairman and the CEO are immediate family members;
(iii) the Chairman is part of the management team; or
(iv) the Chairman is not an independent director.

a) Has the company deviated from the Code with respect to Guideline 2.2 which requires independent directors to make up at least half the board?

b) Could the company explain why it had deviated from the Code?

c) Would the nominating committee and the board relook into the board composition?

Two of the independent directors were appointed to the board in April 2000 and a third independent director was appointed to the board on December 2005. The board recognises “the benefits of the experience and stability brought by long-standing Directors” and wishes to retain them on the board.

The board also states its commitment to “to the progressive renewal of board membership” (page 24).

d) Would the board explain its commitment to the progressive renewal of board membership? What are the near-term plans to renew the board?