Issuer: Food Empire Holdings Limited

Security: Food Empire Holdings Limited

Meeting details:
Date: 24 April 2018
Time: 3.00 p.m.
Venue: Four Points by Sheraton Singapore, Riverview Jubilee Ballroom, 4th Storey, 382 Havelock Road, Singapore 169629

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)

1. As announced by the company on 26 March 2018, the company's independent auditor, Ernst & Young LLP, have, in the Independent Auditor's report, included a qualified opinion in relation to the group's audited financial statements for the financial year ended 31 December 2017.

The basis for the qualified opinion is as follows (page 45 of the annual report):

> *We draw attention to Note 15 of the financial statements relating to the Group's investment in a foreign associate, Caffe Bene Co., Ltd ("Caffebene"), which had filed for a court-led rehabilitation scheme. The Group recognised share of losses of US$4,762,000 from Caffebene and an impairment charge amounting to US$4,281,000 in the Group's consolidated income statement for the financial year ended 31 December 2017.*
>
> *The auditors of Caffebene have not been able to complete the audit of Caffebene for the financial year ended 31 December 2017. Accordingly, we were unable to obtain sufficient appropriate audit evidence to ascertain the appropriateness of the Group's share of Caffebene's losses for the year ended 31 December 2017. Consequently, as the remaining carrying amount was fully impaired, we were also unable to assess whether the impairment charge recorded within "Other expenses" was appropriate and whether any adjustment is necessary between this amount and the share of losses recognised during the year. This does not have an effect on the Group's profit for the year included in the Group's consolidated income statement.*

(i) Can the company help shareholders understand if the company is still liable to other losses and/or impairment due to its investment in Caffeebene?

(ii) Does the audit committee have any visibility on when the audit of Caffeebene for the financial year ended 31 December 2017 will be completed?

The investment into Caffebene was made in March 2016 and Caffebene filed a court-led corporate rehabilitation process in January 2018, less than two years after the group's investment.

(iii) What was the level of commercial due diligence carried out by the board prior to the investment by the group?

(iv) What were the key assumptions made by management prior to the acquisition? What caused the more than 30% drop in revenue of Caffe Bene?

(v) What was the level and quality of deliberation, discussion and debate by the board regarding the Caffeebene investment? Was there sufficient independent element on the board to facilitate a healthy and constructive challenge by the independent directors?

2. *[The following question on the composition of the board was posted to the company last year based on the annual report for the financial year ending 31 December 2016. As the company did not respond and has not made changes to the board composition, the question is reposted with updates, and redirected to the lead independent director.]*

The company as stated that it is "*committed to maintaining good corporate governance to enhance and protect the interest of the Company's shareholders. The Company recognises the importance of practicing good corporate governance and supports the Code of Corporate Governance 2012 (the "Code"). The Company has complied in all material respects with the principles and guidelines in the Code. Where there are deviations from the Code, appropriate explanations will be provided.*" (page 21)

Guideline 2.2 states that independent directors should make up at least half of the Board in certain situations, including where the chairman is part of the management team. The Board comprises eight Directors, with Mr. Tan Wang Cheow as the executive chairman, and three other independent non-executive directors.

(i) **Would Mr. Ong Kian Min as the Lead Independent Non-executive Director help shareholders understand why independent directors do not make up at least half the board as recommended by Guideline 2.2 of the Code? What are the reasons for the company's deviation from the Code and would the board reconsider its deviation?**

The nominating committee (NC) comprises Mr. Lew Syn Pau (as chairman), Mr. Tan Wang Cheow, Mr. Ong Kian Min and Mr. Boon Yoon Chiang. The scope and responsibilities of the NC include reviewing the independence of directors annually.

As independent directors, Mr. Lew Syn Pau (appointed in April 2000), Mr. Ong Kian Min (appointed in April 2000) and Mr. Boon Yoon Chiang (appointed in December 2005) have served on the Board for more than nine years.

Guideline 2.4 of the Code calls for the particularly rigorous review of the independence of any director who has served on the board beyond nine years from the date of his first appointment.

(ii) **Can the NC and the Lead Independent Director help shareholders understand if the company has carried out a particularly rigorous review of the independence of such directors? If so, please also explain in detail how the "particularly rigorous review" was carried out.**

(iii) **With all three long tenured independent director in the NC and each of them being the subject of a particularly rigorous review of his independence, how effective was the NC in discharging its duty?**

In addition, the board has stated that "[w]hile recognising the benefits of the experience and stability brought by long-standing Directors, the Board remains committed to the progressive renewal of board membership […] board renewal is an ongoing process, the NC is responsible for identifying and recommending new Board members, after considering the necessary and desirable competencies."

(iv) **While the board has stated that it is committed to the progressive renewal of the board, can the NC and the Lead Independent Director share the company's near-term plans for the progressive refreshing of the board so as to provide a smooth transition on the board and to retain its institutional knowledge?**

3. In its core operations, Russia is still the group's main market, accounting for US$117 million of the group's total revenue of $269 million and even with the group's diversification efforts, beverages still account for 87% of the group's revenue.

(i) **Should tension escalate once again between Russia and other countries, what will be the impact on the group's operations and financials? How is the group prepared for any possible sanctions?**

(ii) **Has the board set targets for the group's diversification efforts?**

(iii) **What is the reason for the disproportionally large 15% increase in salaries, wages and other staff benefits when revenue increased 11%?**

(iv) **What are the utilisation levels of the group's existing plants and factories? How much more growth can the group support?**

(v) As shown in Note 34 (page 119 – Commitments and contingencies), the group has contracted capital expenditure of US$29.1 million for property, plant and equipment. **Can management explain if this is for a new plant that the group is building?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Food%20Empire%20Holdings%20Ltd

The company's response could be found here: -----