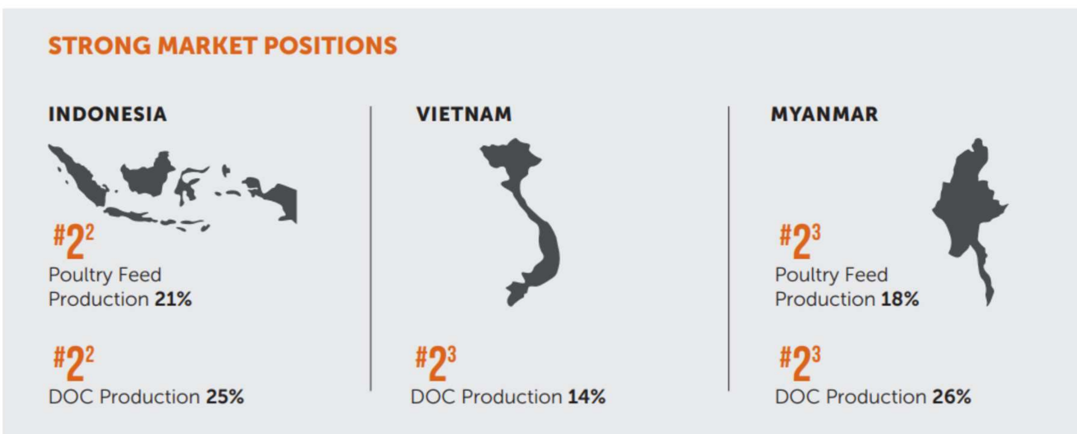
SIAS Queries for Japfa Ltd AGM 17 April 2023

Issuer: Japfa Ltd
Stock code: UD2
Meeting details:
Date: 17 April 2023 Time: 2.00 p.m.
Venue: York Hotel Singapore, Carlton Hall, Level 2, 21 Mount Elizabeth, Singapore 228516

Q1. A significant milestone was achieved with the spin-off of AustAsia Group (AAG) in 2022. The Chinese dairy farming business was successfully listed on the Hong Kong Stock Exchange on 30 December 2022, and AAG shares were distributed in specie to shareholders. With the distribution in specie becoming effective, AAG ceased to be a subsidiary of Japfa. Two distinct and leading agri-food companies were created, each with a clear focus, strategy, and financial flexibility to grow further in their respective markets.

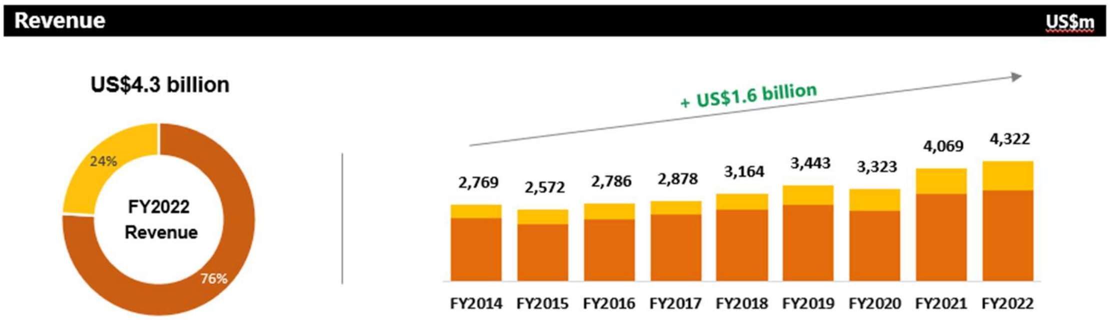
The company and its subsidiaries remain a pure-play leading integrated animal protein producer in Emerging Asia, with operations in Indonesia, Vietnam, India, Myanmar and Bangladesh.
(Source: company annual report)

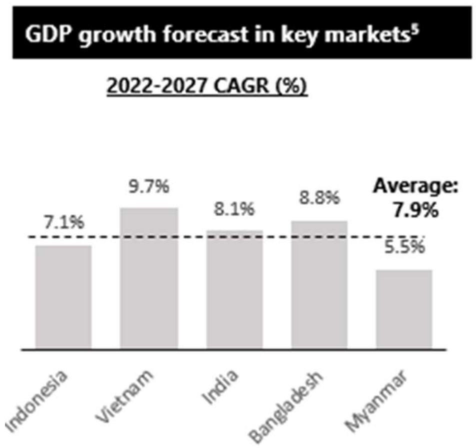


1 As at 31 December 2022 post Distribution in Specie of AAG..
2 2021 rankings and market share based on Frost & Sullivan estimates.
3 2022 rankings and market share based on Japfa's estimates.

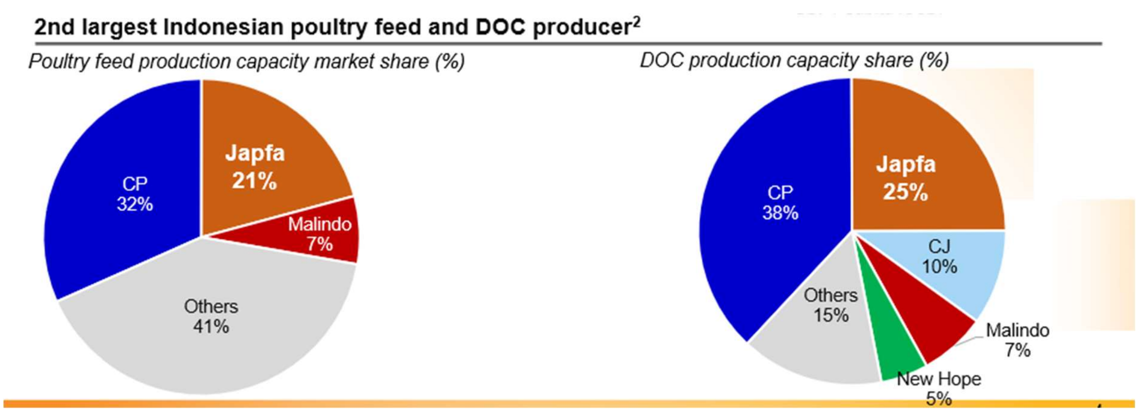
(i) The group currently holds the #2 position in Day-Old-Chicks ("DOC") production in Indonesia and Vietnam, as well as being the second-largest operator in poultry feed production in Indonesia. **Has the board management set a strategic goal to become the market leader in these segments?**

A. Japfa strives to be one of the most efficient and lowest cost protein producers in the emerging Asia markets we operate in (Japfa Emerging Asia), where protein consumption is still low. With an average forecasted GDP growth in Japfa Emerging Asia of 7.9%, there is ample room for growth. Given the growing affluence of our target middle- and lower-income consumer groups, we expect protein food consumption to continue to rise.





Source: IMF World Economic Outlook Database (October 2022 version), GDP in USD terms, data extracted on 16 February 2023



For example, in Indonesia, we have more than 20% of the market share in poultry feed and DOC. Based on an OECD report, the poultry consumption in Indonesia is 8.2kg per capita, compared to 50.1kg in Malaysia with similar demographics and therein lies the potential for growth in our poultry business in Indonesia.

The key is to achieve a business size that gives you the advantages of economies of scale which Japfa has already achieved by being the top 2 player in many of our markets.

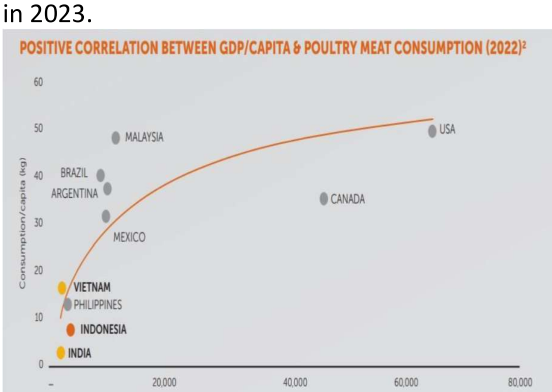
(ii) **Are there any potential benefits to consolidating the company's main operations in Indonesia, which are conducted through its 55.4%-owned subsidiary PT Japfa Comfeed Indonesia Tbk ("PT Japfa Tbk")?**

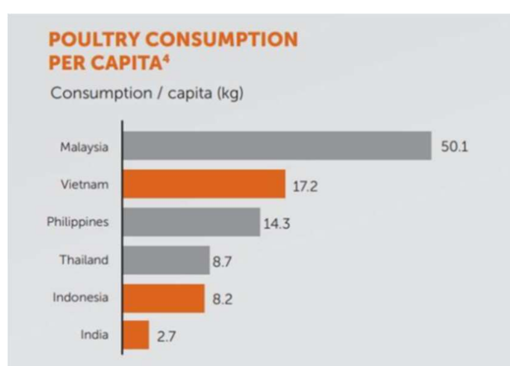
A. PT Japfa Tbk is listed on the Indonesian Stock Exchange IDX while Japfa Ltd is listed on the Singapore Stock Exchange SGX. Investors can choose to invest according to an Indonesian growth focus or a wider South/SEA growth opportunity, as well as choosing the investment currency in Rupiah or Singapore Dollar. From the Company's perspective, the separate listings provide access to different capital markets. In addition, for investors who are interested in gaining exposure to Vietnam and specifically to the swine business, they can invest through Japfa Ltd.

Outside of Indonesia, the scale of the group's operations in Vietnam, India, Myanmar and Bangladesh are shown on page 23 (reproduced below):

(Source: company annual report)

In the longer term, we have identified India as a key growth market, with a current base in the feed business. India has a huge population and is set to become the world's fastest-growing major economy in 2023.





(Source: company annual report)

(iii) **How long has the group been in India and has management identified the business model that is most suitable for India?**

A. Japfa started its operations in India back in 1995. We are currently focused on producing premium quality poultry feed, mainly for sale to third party farmers.

Consumer purchasing patterns are evolving with modern technology, accelerated by the recent movement restrictions due to the Covid-19 pandemic. In 2022, we have developed a new business system to reach more customers through more efficient deliveries.

(iv) **Are there plans to commit more capital to India to accelerate the growth? Would management be focused on growing the business organically or via acquisitions?**

A. Japfa typically prefers organic growth in order to maintain our high farming and biosecurity standards and operational efficiency.

(v) **Separately, has the group faced any operational difficulties or disruptions in Myanmar?**

A. Japfa has been operating in Myanmar since 2014 and have "top 3" market positions in both poultry feed and DOC.

Consumer demand has been affected by Covid-19 and political instability. Over the last few years, the country moved to a cash economy and coupled with disruptions in the supply and logistics chain, we switched to local sourcing of raw materials in MMK. In this way, we mitigate the risk of currency depreciation. Our feed selling prices are regularly revised to accommodate rising raw material costs and currency depreciation of MMK.

The situation in Myanmar remains challenging and we have scaled back our poultry operations. Cost control measures introduced by the management during this uncertain period are still in place. In FY2022, with an improvement in poultry feed ASPs, our Myanmar operations delivered a positive EBITDA.

As a producer of basic staple protein foods, Japfa continues to deliver safe, affordable food to local consumers even during uncertain times. We believe we have an important role as a major supplier of staple proteins in the countries we operate in.

Q2. For the financial year ended 31 December 2022, allowance for impairment on trade and other receivables increased from US$(1.73) million to US$(7.55) million. In addition, US$(4.43) million of bad debts were written of in 2022 (2021: US$(1.11) million).

The aging of the group's trade receivables by age past due is shown below (page 156):

Group	2022 Gross carrying amount US$'000	2022 Loss allowance provision US$'000	2021 Gross carrying amount US$'000	2021 Loss allowance provision US$'000
Not past due	134,320	–	144,375	–
Less than 60 days	28,535	11	31,147	15
61 to 90 days	1,995	6	9,794	11
91 to 120 days	1,472	34	9,133	56
Over 120 days	27,116	11,870	38,617	10,051
Total	193,438	11,921	233,066	10,133

(Source: company annual report)

In Note 21, it was disclosed that management had recognised US$4.9 million in allowance for expected credit loss (ECL) for the loan due from the investee company (page 156). The amount was deconsolidated upon the distribution in AAG group.

(i) **Other than the reason mentioned above, what other factors have contributed to the significant increase in allowance for impairment on trade and other receivables?**

A. From the Covid-19 pandemic to more recent uncertainties in global markets, coupled with inflationary pressures, many economies have been adversely affected. In Indonesia, our poultry farmer customers, are faced with higher production costs due to global macroeconomic factors including inflation and geopolitical conflicts. At the same time, live bird prices have not risen at the same rate as costs have risen due to weakened consumer spending power.

Several customers that are affected by this situation have been long term customers of Japfa. As such, we have made additional provisions in 2022 as a precautionary measure in the light of the current difficult market situation.

(ii) **For the benefit of shareholders, could management provide an update on the efforts made to collect the long-outstanding debt? Are there any specific measures taken to accelerate the recovery of the debt?**

A. Provision was made for prudency in accounting while operationally, the Company continues its efforts to approach and negotiate with customers to secure written commitments on settlement plans.

The Company has further reviewed and tightened the policy on customer credit and we will be more selective on our customer base. For customers who are uncooperative, legal action has been taken.

(iii) **Other than the investee company, could management provide details on the customers with outstanding trade receivables that are past due? Are there any particular countries or business lines that are experiencing a concentration of bad debt?**

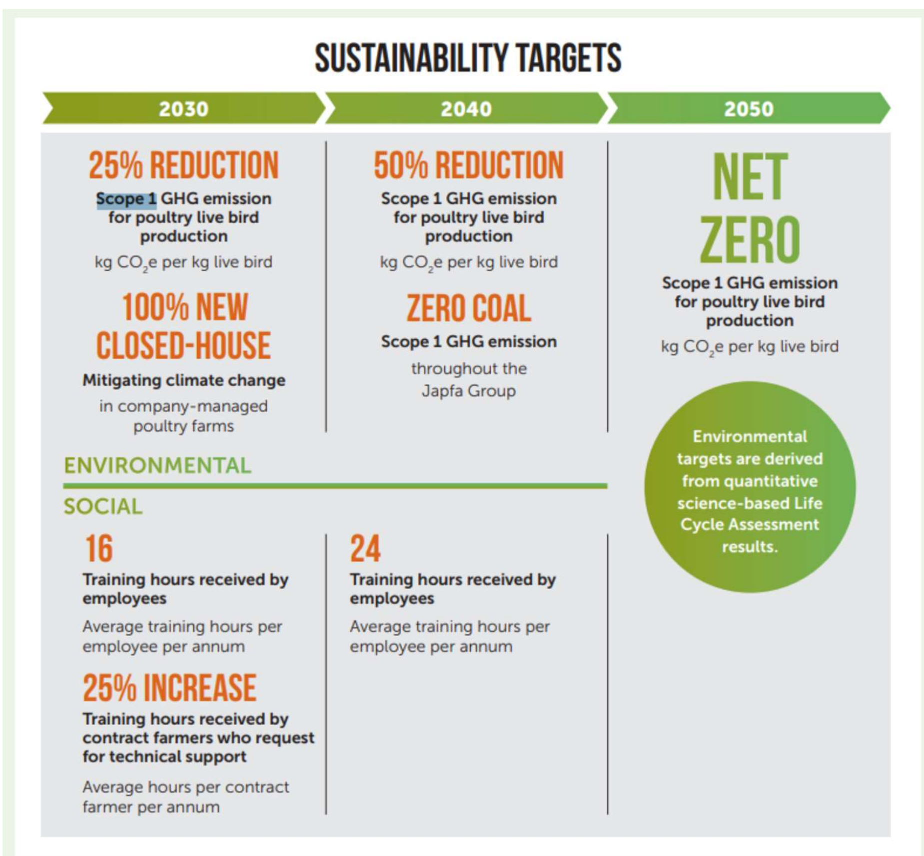
A. The Group's trade receivables have reduced 17% from 2021. Trade receivable turnover days in 2022 for the Group is 15 days, which is similar to 2021.

Of the past due receivables as of 31 December 2022, 87% are from PT Japfa Tbk. The past due receivables are spread across all business lines quite evenly, for example in feed, breeding, commercial farming and so on.

Q3. In 2022, the company made progress in its sustainability journey, aiming for Net Zero by 2050 and advancing sustainable agriculture.

The group launched its Sustainability Targets, which include science-based environmental and social goals. Environmentally, the focus is on reducing greenhouse gas (GHG) emissions in poultry farming and transitioning to closed-house systems by 2030, with a 25% GHG reduction per kg of live bird by 2030, 50% by 2040, and eliminating coal usage by 2040.

Under the social targets, the group aims to increase employee training to 16 hours per person by 2030 and 24 hours by 2040, while raising training for contract farmers by 25%. Additionally, Japfa established a Supplier Code of Conduct in 2022 to ensure responsible procurement practices.



(Source: company annual report)

(i) **Can the management help shareholders better understand what are “closed-house systems”?**

A. Closed-house systems help to mitigate the risk of climate change, for example heat stress, on our livestock. In a closed-house system for poultry, the birds are sheltered from harsh weather, with temperature and humidity controls and measures in place designed to provide conducive environment for the welfare of the animals.

In addition, the closed-house system allows for more stringent biosecurity measures to protect our flocks from diseases as healthy animals improve productivity.

(ii) **Can management provide an estimated timeline for completing the group-wide sustainability assessment for its poultry business, including operations in Vietnam, India, and Myanmar?**

A. Our target is to complete the assessment for Vietnam, India and Myanmar by 2023.

(iii) **According to the information available to management, does the swine operation have a higher or lower environmental impact per unit of protein produced compared to the poultry operations? When will the group be able to set sustainability targets for its swine operations?**

A. According to general literature on this subject, swine is expected to have a higher impact compared to poultry. We believe that we should be more precise as to the environmental impact with regards to Japfa’s own operations in Vietnam. As such, we are pleased to inform that we have launched a formal life cycle assessment on our swine operations in Vietnam. The assessment is expected to take 1.5 years to complete. We look forward to be able to establish real, meaningful sustainability targets based on the results from the science-based assessment.

In the tribute to the late executive chairman, Mr Handojo Santosa, who was fondly known as "Pak Han", it was mentioned that Pak Han was a strong advocate for the professional and personal growth of the Japfa group and its employees. Pak Han played an instrumental role in establishing the Japfa The Learning Centre ("JTLC"), which serves as a dedicated space for employees to meet, train and exchange knowledge. Pak Han strongly believed that the group's most valuable asset is its people, which is a critical component of the People Development sustainability pillar.

(iv) **Is the group also extending the JTLC to Vietnam and other key markets in the near future?**

A. JTLC, though built in Indonesia, is meant for the bonding, training and development of all Japfa employees groupwide. Meetings and training have been conducted in JTLC since 2022, including the Annual Budget management meeting and employee training programmes (conducted both by internal and external trainers). Our employees from Indonesia, Vietnam, India, Myanmar, Bangladesh and Singapore have physically attended these meetings and trainings in JTLC.

For more information on JTLC, please refer to page 127 of Japfa Ltd Sustainability Report 2022 which is available on our website www.japfa.com.