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Issuer: Yeo Hiap Seng Limited

Security: Yeo Hiap Seng Limited

Meeting details:

Date: 26 April 2019

Time: 4.00 p.m.

Venue: The Auditorium, Yeo Hiap Seng Limited, 3 Senoko Way, Singapore 758057

Company Description

Yeo Hiap Seng Limited, an investment holding company, engages in the manufacture, marketing, distribution, sale, and export of food and beverage products in Singapore, Malaysia, Cambodia, and other countries. It offers Asian drinks, ready-to-drink tea, soy drinks, juice drinks, coconut water, sparkling water and drinks, flavored drinks, iced coffee, and water; and culinary sauces, culinary pastes, condiments, canned curries, instant noodles and vermicelli, spreads, and canned seafood and vegetables. The company offers its products under the YEO's, H-TWO-O, Pink Dolphin, Justea, Juscoffee, Juscool, Oceanic, Fun, pH Infinity, and Pureté brand names. It also manages other food and beverage brands, such as A1, Celsius, The Hain Celestial Group, Allswell, Louis Raison, Sun Dairy, Bel Normande, Red Bull, and Uni-President; provides vending, warehousing, and logistics services; and owns, develops, and leases properties. The company was founded in 1900 and is headquartered in Singapore. Yeo Hiap Seng Limited is a subsidiary of Far East Organisation Pte. Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=Y03)

1. As noted in the chairman's statement, the group is in a strong financial position with cash and cash equivalents of \$282.7 million and no borrowing as at 31 December 2018.

The chairman has stated that the group has been evaluating opportunities to grow via strategic collaborations or acquisitions. Even before the disposal of Super Group, the company was already sitting on \$92 million in cash as at 31 December 2016 and has stated that the group could leverage its cash hoard to "grow through strategic collaborations or acquisitions when the opportunities arise."

It has been approximately 2.5 years since the company announced the sale of Super Group.

From the 2018 strategy review that was carried out, the board and management have identified strategic themes in the categories that the group will target to grow – Asian Drinks, Soy, Ready-to-drink ("RTD") Tea, Carbonated Drinks and Food – as well as a holistic market focus on Cambodia. All these appear to be the usual "organic growth", incremental steps that a diligent management would carry out on a business-as-usual basis.

Shareholders would imagine that the group can make investments to improve its market access, acquire strategic assets and capabilities, such as strong brands or to collaborate with brand owners, expand the group's distribution, go into new categories such as beer, spirits, venture into restaurants, frozen food or Ready-to-Eat products, or perhaps even go upstream into agriculture. Naturally, only some of these options would be a good fit with the group's core competencies and risk appetite.

- (i) Has the board evaluated opportunities that would be transformational for the group?**
- (ii) How is the management going to deploy the extra \$100-200 million to create sustainable growth for shareholders?**
- (iii) What kinds of opportunities have the board evaluated? Which part of the F&B eco-system would be the most attractive for the group?**
- (iv) Has the board ruled out venturing back to property development?** The group has halted its property development activities for a long time.
- (v) For new and long standing shareholders, would the board clearly (re)state the group's vision and mission?**
- (vi) If there are no opportunities to deploy the excess capital meaningfully, would the board consider right-sizing its balance sheet and return the capital to shareholders?**

2. In Note 34 (pages 149 to 152 – Segment information), management reported the group's operating segments as "Consumer food and beverage products" and "Others". However, the "Consumer food and beverage products" accounted for 99.9% of the group's external revenue, making the segment information meaningless.

- (i) **In the organisational structure, does the group have separate business units for “consumer food” and for “beverage products”?**

According to the Singapore Financial Reporting Standards (International) - SFRS(I)8 Operating Segments, an operating segment is a component of the entity that (a) engages in business activities, (b) whose operating results are regularly reviewed by the entity’s chief operating decision maker in order to allocate resources to the segment and assess its performance and (c) for which discrete financial information is available.

SFRS(I) 8 also states the quantitative thresholds of 10% of revenue, profit or loss, or assets for the reporting of information about an operating segment separately.

- (ii) **Based on the principles-based definition of an operating segment in SFRS(I) 8 and also the quantitative thresholds, did the audit and risk committee (ARC) evaluate if the “consumer food” and “beverage products” should be considered as two reportable segments in SFRS(I) 8?**

3. Would the board/management provide shareholders with better clarity on the following governance matters? Specifically:

- (i) **Board size:** As at 31 December 2018, the board comprises ten members, of whom six are independent, four are non-executive and non-independent and one executive director (being the Group CEO). The nominating committee has disclosed that it reviewed the size and composition of the board and board committees and the skills and core competencies of its members and the board considers “the current board size as appropriate for meaningful individual participation by directors with diverse professional perspectives, so as to facilitate efficient and effective decision making with a strong independent element” (page 17).

Would the nominating committee help shareholders understand how it had assessed that the board size of ten is appropriate for the group given its operations? As a comparison, a large local bank with market capitalisation of \$70 billion has a board with 11 directors whereas the company has a market capitalisation of \$560 million. In addition, banks operate in an environment that is under heavy scrutiny by regulators and are probably much more complex to manage.

While the company’s board is diverse and possesses the key competencies (include accounting and finance, banking, business acumen and management experience), how much industry knowledge and insights does the board have? How does the board provide its entrepreneurial leadership and set strategic objectives especially in the area of consumer preferences, food safety and raw material sourcing?

- (ii) **Attendance:** Dato’ N. Sadasivan a/l N.N. Pillay attended three out of five board meetings and three out of four ARC meetings during the year. In FY2017, the director attended two out of four board meetings and two out of four ARC

meetings. Can the company help shareholders understand if there were extenuating circumstances that led the director to be absent for the board meetings? How far in advance are board meeting scheduled? What are the reasons directors fail to make it to all the board meetings? How can the company and the company secretary work together with the directors to schedule the board and board committee meetings so that all the directors are able to attend the meetings and contribute to the effectiveness of the board?

The attendance of the Directors at meetings of the Board, the ARC, the NC, the RC and the AGM during the financial year was as follows:

	Board	ARC	NC	RC	AGM
Executive Director					
Melvin Teo Tzai Win	5/5	-	-	-	1/1
Non-executive Directors					
Koh Boon Hwee	5/5	-	-	-	1/1
S. Chandra Das	5/5	4/4	1/1	2/2	1/1
Chin Yoke Choong	5/5	4/4	1/1	-	1/1
Dato' Mohamed Nizam bin Abdul Razak	5/5	4/4	-	-	1/1
Dato' N. Sadasivan a/l N.N. Pillay	3/5	3/4	-	-	1/1
Tan Chin Nam	5/5	-	1/1	1/2	1/1
Luo Dan	5/5	-	-	2/2	1/1
Fong Chun Man Kenneth	5/5	-	-	-	1/1
Ng Win Kong Daryl ¹	3/5	-	-	-	-

Annotation:

¹ Mr. Ng was appointed as non-independent and non-executive Director on 13 June 2018 and attended all Board meetings held subsequent to his appointment.

(Source: Company annual report 2018)

The attendance of the Directors at meetings of the Board, the ARC, the NC and the RC during the financial year was as follows:

	Board			ARC			NC			RC		
	A	B	C	A	B	C	A	B	C	A	B	C
Executive Director												
Melvin Teo Tzai Win	M	4	4	-	-	-	-	-	-	-	-	-
Non-executive Director												
Koh Boon Hwee	C	4	4	-	-	-	-	-	-	-	-	-
S. Chandra Das	DC	4	4	M	4	4	C	1	1	M	2	2
Chin Yoke Choong ¹	M	4	4	C	4	4	M	1	0	-	-	-
Dato' Mohamed Nizam bin Abdul Razak ²	M	4	4	M	4	2	M	1	1	-	-	-
Dato' N. Sadasivan a/l N.N. Pillay	M	4	2	M	4	2	-	-	-	-	-	-
Tan Chin Nam ³	M	4	4	M	4	2	M	1	0	C	2	1
Luo Dan ⁴	M	4	4	-	-	-	-	-	-	M	2	1
Fong Chun Man Kenneth ⁵	M	4	2	-	-	-	-	-	-	-	-	-
Wee Kheng Jin ⁶	M	4	2	-	-	-	-	-	-	-	-	-
Ngiam Tong Dow ⁷	M	4	0	-	-	-	M	1	0	C	1	1
Razman Hafidz bin Abu Zarim ⁸	M	4	1	-	-	-	-	-	-	M	2	0

Annotations:

A Position held as at 31 December 2017 either as Chairman (C), Deputy Chairman (DC) or Member (M)

B Number of meetings held during the financial year from 1 January 2017 to 31 December 2017

C Number of meetings attended during the financial year from 1 January 2017 to 31 December 2017

¹ Appointed as NC member on 27 April 2017

² Appointed as ARC member and ceased as NC member on 27 April 2017

³ Appointed as RC Chairman and NC member and ceased as ARC member on 27 April 2017

⁴ Appointed as independent and non-executive Director on 1 January 2017 and RC Member on 27 April 2017

⁵ Appointed as non-independent and non-executive Director on 1 July 2017

⁶ Retired as a non-independent and non-executive Director at the conclusion of the AGM held on 26 April 2017

⁷ Ceased as independent and non-executive Director on 27 April 2017 and accordingly also ceased as NC member and RC Chairman on 27 April 2017

⁸ Ceased as independent and non-executive Director on 27 April 2017 and accordingly also ceased as RC member on 27 April 2017

(Source: Company annual report 2017)

[Additional comments: The company usually holds its annual general meeting on the last Friday in the month of April and usually late in the afternoon at 4pm at its auditorium at 3 Senoko Way.]

- (i) Would the company help shareholders understand the turn-out at its annual general meeting?** Based on the statistics of shareholdings, as at 7 March 2019, the company has nearly 5,600 shareholders.
- (ii) Are there any reasons for the company to hold its AGM at 4pm on the last Friday in April?**
- (iii) Has the company considered how it might improve the attendance of shareholders at the AGM if it were to hold the AGM on an earlier date, at an earlier time?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Yeo%20Hiap%20Seng%20Ltd&cid=6495,4631>

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