Appendix B

Questions from MSWG

Operational & Financial Matters

Question 1
Pursuant to the earlier setback of the suspension of heifer imports from the USA in October 2024 by the Department of Veterinary Services due to avian flu outbreak concern, what is the latest development in the arrival of heifers?

Will F&N continue to pursue the importation of Holstein heifers from the States? What are the alternative options i.e., breed, that the Group currently looking at to accelerate the operation of the integrated dairy farm in Gemas, Negeri Sembilan? With the setback, when will the plant commence its commercial operation?

Additionally, how had the Group's cash flow been affected by the delay? Please explain the magnitude of the financial impact arising from this setback.

Our response:

Currently, discussions with alternative sources are in progress. Concurrently, work on Phase 1 of the farm's infrastructure is continuing at pace, in preparation of kicking off operations when the livestock arrive. We will continue to keep USA in view as a source of heifers, especially when the Avian flu situation subsides.

Our target to commence commercial operations of the dairy farm and plant within this financial year remains. We will share more when we are ready.

Cash flow impact comes in the form of delayed revenue for the period of delay. In the bigger scheme of things, there is no significant impact.

Operational & Financial Matters

Question 2

F&N’s regional footprint expansion progressed with the establishment of a new manufacturing plant in Cambodia’s Suvannaphum Special Economic Zone. The facility aims to localise operations while capturing the growing demand in the country. Besides, this plant is expected to reduce export costs from Thailand and free up capacity in existing manufacturing facilities for further growth in Malaysia, Thailand and other export markets (page 37 of AR2024).

a) How robust is the demand for beverages and dairy products in Cambodia? What was the size of export sales to the country in FY2024? Additionally, what has been the average growth rate of F&B Thailand’s export revenue to Cambodia over the last three years?

b) Please outline the measurable benefits and impact of expanding manufacturing capacity to Cambodia, specifically on the cost savings, carbon footprint, and capacity freed up at existing facilities.

Our response:

a) In FY2024, we achieved strong double-digit growth in Cambodia compared to the previous year. We do not share data of individual markets for competitive reasons. Currently, in Cambodia, we sell not only Teapot, Carnation and Gold Coin Sweetened Condensed Milk and Evaporated Milk, but we have also been appointed by Nestle to sell Bear Brand Sterilised Milk. The expansion does not only signify an additional factory, but we will also be adding more resources on the ground to make this a larger operation.

b) As for measurable benefits, we have received Qualified Investment Project (QIP) status for a minimum of six years which will help to offset the gradual expiration of BOI incentive in Thailand. In Cambodia, the Sweetened Condensed Milk production line features advanced technology that consumes less energy and water. CO^2 emission at our new plant will also be lower than transporting finished goods from Rojana to Cambodia. With the additional plant, we will have more capacity for local and export markets.

Operational & Financial Matters

Question 3

On the other hand, F&N's chief executive officer (CEO) Mr Lim Yew Hoe said the Group placed "*greater focus on financial vigilance*" in FY2024 due to the start-up investments in F&N AgriValley and the expiration of certain tax incentives (page 31 of AR2024). He further cautioned that the Group's "*margins will remain tight in FY2025*" given the factors above (page 39 of AR2024).

a) What specific "financial vigilance" measures were taken during the year to ensure prudent financial management?

b) Given the headwinds ahead, what is the management guidance of profit margins for FY2025? Will the Group be able to sustain its current net profit margin of 10.34% despite these challenges?

Our response:

a) In view of the large investment, we have been disciplined in our financial operations. In particular, we practice weekly cash flow management. From this, we are confident that there will be zero borrowings in FY2025. This resulted in significant interest cost avoidance.

b) Our objective has always been to maintain or exceed net profit margins. Given the geopolitical uncertainties, this year, we have taken a more active hedging strategy.

Operational & Financial Matters

Question 4
F&B Malaysia reported a sharp decline of 33.62% in export revenue to the Middle East and Africa at RM107.5 million compared to RM161.95 million in the previous year (page 237, Note 21 – Revenue, AR2024).

Was the lower revenue primarily due to the Red Sea shipping crisis and higher freight charges, as pointed out by the CEO on page 32 of AR2024? Otherwise, what were the other factors contributing to the decline in sales?

Our response:

Correct. The lower revenue was primarily due to the Red Sea shipping crisis, which contributed to higher cost to end customers, who purchased less or sought alternative sources.

Operational & Financial Matters

Question 5
The total compensation for key management personnel saw a significant increase of 24.7%, rising from RM18.15 million in FY2023 to RM22.64 million in FY2024. Notably, remuneration grew by 15.02% year-on-year to RM18.09 million.

How many individuals were included in the calculation of key management personnel compensation? What is the average annual adjustment made to their remuneration?

Our response:

The number of individuals are similar as last year's. However, due to retirement and new joiners, the full year impact against past year's average increased by 5%.

Operational & Financial Matters

Question 6
The Group incurred termination benefits amounting to RM6.38 million (FY2023: nil) for personnel expenses in FY2024 (page 242, Note 25 – Profit for the year, AR2024).

Please explain the nature of the benefits and what lead to the payment of such.

Our response:

RM6.3 million was accrued for a periodic restructuring / rationalisation programme.
This exercise was completed in Dec 2024. The payments are in accordance with employment law and/or collective agreements.

Sustainability Matters

Question 1

F&N is committed to reducing energy, greenhouse gas emissions and water intensity at its plants with reduction targets set for FY2025 vis-à-vis the FY2020 baselines.

Despite the commitment, the Group was unable to achieve satisfactory progress in FY2024, particularly concerning the energy and water intensity ratio (refer to the table below), primarily due to the challenges to operational expansions across local and overseas facilities (page 26 of Sustainability Report 2024).

Material Issue	2025 Target	2024 Progress
Energy	Reduce the Group's energy intensity ratio at plants by 8% from a 2020 baseline, i.e., 799.07	Group energy intensity ratio has improved by 0.1% to 867.74 (FY2020 baseline at 868.56)
Climate Change	Reduce the Group's GHG emissions intensity ratio at plants by 8% from a 2020 baseline, i.e., 0.0608	Group GHG intensity ratio has improved by 4%, now standing at 0.0635, (FY2020 baseline at 0.0661)
Water Stewardship	Reduce the Group's water intensity ratio at plants by 8% from a 2020 baseline, i.e., 2.1068	Group water intensity ratio has improved by 3% to 2.37 (FY2020 baseline at 2.29)

As the Group continues its geographical expansion and dairy farming, its carbon footprint, energy consumption, and water usage are expected to grow, potentially further increasing the GHG emissions, energy, and water intensity ratios. (Con't)

Sustainability Matters

a) Are the reduction targets for energy, greenhouse gas (GHG) emissions, and water intensity realistic and achievable given the ongoing operational expansions? Is the Group considering revising the targets or baselines to align them with the realities of operational growth?
b) How does the Group balance its commercial growth objectives with its environmental sustainability commitments?
c) What measures will be taken to ensure meaningful progress toward these targets?

Our response:
We agree with your observation that the expansion trajectory was not fully accounted for in our original targets. Under business-as-usual conditions (without taking into account operational expansions), we are making good progress for our goals, particularly our Malaysian operations achieving 7% reduction of energy intensity ratio, 18% reduction of GHG intensity ratio and 6% reduction of water intensity ratio against baseline.

As we prepare to establish a new set of targets, we value your suggestion to carefully balance our commercial growth objectives with our environmental sustainability commitments. This balance will remain a core focus as we refine our strategies, ensuring that our future goals reflect both the scale of our expanding operations and our dedication to sustainability.

Corporate Governance Matters

Question 1

In relation to Practice 4.4 of the Malaysian Code on Corporate Governance, the Board Evaluation for FY2024 included an assessment of the roles of the Board relating to strategic management of the Group's sustainability agenda. The Board scored an average rating of 3.69 out of 5 points (FY2023: 4.28 out of 5 points) for questions relating to sustainability and ESG practices below (page 22, Corporate Governance Report 2024):

- Ensuring ethical behaviour and proper compliance standards
- Integrating sustainability considerations in corporate strategy, governance and decision-making
- Taking proactive and effective measures in addressing material ESG risks and opportunities
- Understanding sustainability reporting standards and ensuring appropriate corporate disclosure policies and procedures.

(Con't)

Question 1

(Con't)

a) What were the findings of the assessment regarding the directors' expertise, knowledge and skillset in addressing the Company's material sustainability risks and opportunities?

Our response:

The board is cognisant of the importance of these ESG practices set out in above. They have attended many ESG trainings, workshops and seminars and they will continue to do so.

The following are findings that are extracted from the external consultants' report in relation to the area of the Company's material sustainability risks and opportunities.

"Directors have expressed the need to learn more about a range of topics, which among others includes Agriculture; Sustainability (including Net Zero goals). "

"There is an observation that the Company is moving past mere compliance matters related to ESG and that there are efforts to integrate it into the Company's business strategies. The level of awareness within the Board is also viewed to have significantly increased."

"One of the highest rated questions based on Average Ratings relates to ESG where the Board ensures ethical behaviour and proper compliance standards throughout the Company and sets the right "tone at the top" by its behaviour. "

Question 1

(Con’t)

b) Additionally, what does the decline in the average rating indicate about the Board’s overall effectiveness in addressing sustainability risks and opportunities?

Our response:

The Board acknowledges the decline in the average rating. This result was mainly due to the Company embarking on a mega dairy farm and agriculture business. The Board is cognisant of the additional ESG risks related to this business and in particular the development of sustainability initiatives to meet net-zero objectives and addressing issues relating to climate change.

The Board remains committed to acquire the requisite knowledge and to understand the compliance requirements for ESG reporting and will continue to guide management to integrate ESG elements into the Company’s business strategies, including capital expenditure investments to ensure business resiliency.

Thank You

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