Our F&B business successfully navigated a stormy year to emerge with stronger positions in multiple markets. Having charted our course for the future, and successfully navigated the obstacles to our growth, we have achieved our goals and continue to commit to **making tomorrow today**.

Food & Beverage

KOH POH TIONG
Chief Executive Officer

Savouring the Possibilities

The fiscal year 2009 proved to be one of our most challenging. Nonetheless I am pleased to report that our performance was solid and our gains were broad-based.

Business Overview

The Food & Beverage division ("F&B") once again delivered strong profit growth, following continued improvements in our revenue, profits and PBIT margin, and increased competitive positioning of its key brands in key markets.

Although revenue improved marginally, attributable profit expanded two-fold to S$134 million, while the PBIT margin improved from 9.7% to 11.4%. Our non-beer sector, comprising soft drinks, dairies and glass containers, delivered a profit growth of 32% on strong soft drinks sales and lower input costs. Beer grew 11% on strong fundamentals, underpinned by a formidable network of 36 operating breweries in 13 countries and a wide portfolio of more than 40 beer brands that satisfy a diverse range of consumer choices.

Our strong performance during the economic downturn is testament to the resilience of our business and successful execution of our winning growth strategies, founded on the following pillars: focusing on our core businesses of beer, soft drinks and dairies; pursuing operational excellence; and driving innovation.

During the year, we announced the non-renewal of the Coca-Cola bottling and distribution agreements upon its expiry in January 2010, and the subsequent 20-month transitional arrangements to extend the bottling and distribution agreements with The Coca-Cola Company ("TCCC") to 30 September 2011.

The expiry of the franchise agreements in Malaysia has opened up opportunities for us to expand on our existing product segments. By leveraging our existing infrastructure, competencies and capabilities, as well as our strong market position in Malaysia, we aim to launch an array of innovative products in new categories both in our established strongholds as well as in new overseas markets.

In Singapore, come 2010, we will regain the marketing and distribution of some of our soft drinks upon expiry of our licensing agreement with TCCC. Consequently, we will enjoy 100% of the income from the sales of these products, which will strengthen the foundation for future earnings of the F&B business. We will launch new products and invest in distribution infrastructure and brand building activities. We also aim to replicate the success we have achieved in Malaysia with our homegrown *100PLUS* – the single largest brand in Malaysia in the soft drinks category – in other markets.

Revenue increased 1% from S$3,005 mil to

S$3,037mil

Profit increased 19% from S$291 mil to

S$345mil

> Our F&B business maintained its strong growth momentum, delivering double-digit profit growth across all business units. Dairies in particular saw strong profit growth in the last quarter.

Soft Drinks

Increasing market positions through innovative promotional campaigns

The Soft Drinks division defied weak market sentiments by sustaining its upward growth trend. For the year under review, both revenue and operating profits grew, thanks to the division's aggressive sales and marketing initiatives. Volume surged 8%, reflecting the division's resilience in the face of the economic slowdown, while revenue climbed 7% to S$542 million. PBIT rose 15% to S$60 million. This strong performance was achieved on the back of leading market positions achieved through innovative marketing programmes, sales and distribution superiority, greater cost savings and increased organisational efficiencies, which contributed to the boost in revenue and profit contribution.

Strong leadership positions in Malaysia for Isotonic and Carbonated Soft Drinks

No.1

Innovative brand activities drive strong consumer loyalty

In Malaysia, the division continued to build on *100PLUS*'s market leadership, while nurturing the *SEASONS* and *Fruit Tree* brands. Activities organised during the year included more eye-catching billboards, attractive point-of-sale materials and crowd-drawing promotional events to enhance product visibility and presence in the market place. Intensive efforts to consolidate our position for *F&N Fun Flavours* also paid off. Targeted at youths, the programmes harnessed *F&N*'s positioning as one of Malaysia's favourite and trusted soft drink brands, garnering *F&N Fun Flavours* a commendable 31% market share, a leadership position in the carbonated soft drinks category.

A rewarding year for *100PLUS*

100PLUS continued to make its mark, garnering a 90% market share to cement its position as Malaysia's No. 1 isotonic drink. Its market position was further strengthened by engaging outreach programmes, including its annual *Live Active Challenge* to inspire consumers towards a healthy lifestyle, and its first ever *Sports Hydration & Nutrition Seminar* in Malaysia, supported by leading bodies from the sporting fraternity. The appointment of Badminton World No. 1, Malaysia's Datuk Lee Chong Wei, as the first ever brand ambassador for *100PLUS* has given added value to the brand.

100PLUS had a winning start to the year by taking home the Gold Award in the category of "FMCG above RM500 Million" in the *2008 Brand Equity Awards*. This was followed by another accolade – *100PLUS* was named Malaysia's No. 1 Brand (across all categories) by Superbrands 2009, based on a survey by Nielsen – a defining moment for a brand that has captured the imagination of Malaysians with its innovative campaigns.

In Singapore, *100PLUS* toasted the nation on its 44th birthday, for which the theme centred on rallying Singaporeans together for the future. The *100PLUS* cry of "outdo yourself" resonated with the hearts and minds of many as they came together to commemorate the nation's birthday. *100PLUS* also launched a hydration seminar, as well as a series of advertisements educating consumers on the importance of staying hydrated, which went a long way to correcting the myth that hydration is required only to quench thirst. In June, *100PLUS* participated heavily in the Asian Youth Games held in Singapore, not only ensuring that our young athletes were properly hydrated but further raising awareness of the brand.

Providing consumers a healthy lifestyle option

Our non-carbonated portfolio, namely *SEASONS*, the fastest growing brand within the Asian Soft Drinks category, continued its efforts to remain the 'healthy' option to consumers. Its promotion of healthier alternatives through the successful *Everyone Can Be Healthy* campaign, via on-ground activities across eight major Malaysian cities, has increased awareness, engagement and consumption. Results were evident from double-digit growth that strengthened its No. 2 position with a 27% market share.

The number of Malaysians that consume *100PLUS* everyday

1.0mil

Even as the world's economy struggled to recover, the Dairies division posted an impressive surge in profits. Various strategic brand activities were also implemented to solidify our market positions and prepare for further market development.

Dairies

Nutritious goodness trusted by generations

The Dairies division demonstrated its resilience during the economic downturn, posting a 72% growth in profit to S$61 million. For our Singapore, Malaysia and Thailand operations, factors such as lower cost of raw materials, better selling price, tighter management of trade discounts and cost saving measures contributed to the profit growth. Although Dairies revenue dipped 6% to S$978 million this year – owing to weaker consumer sentiment, a decrease in export volume and a more competitive market – it has emerged as a major engine of growth and a significant contributor to the Group's non-beer profit.

Growing our core businesses

Dairies Thailand achieved a significant increase in its operating profit despite a marginal drop in revenue that was due mainly to lower export volumes. To focus on growing our dairy business in Thailand, we commenced operations at our new RM250 million "best-in-class" dairy plant, which has an annual production capacity of up to 11 million cases of canned milk. This added capacity will enable us to make further inroads into Thailand, one of Asia's largest markets for dairies, as well as enter new markets such as Indochina, which has a population base of over 100 million people.

Stellar track record – achieved strong leadership positions

No.1 IN MALAYSIA

In Evaporated and Condensed milk

No.1 IN SINGAPORE

In Liquid Milk
In Pasteurised Juices
In Pasteurised Soya
In Pasteurised Tea

Dairies Malaysia also achieved a major milestone this past year, posting its highest ever operating profit and recording a significant improvement over the last financial year. This stellar performance has given us the added impetus to invest in a new dairy manufacturing plant in Malaysia, taking us one step closer to becoming the region's largest canned milk producer. To meet increasing domestic demand, we will invest RM350 million in a new plant, equipped with a production capacity of more than 14 million cases of canned milk a year. Leveraging on our Halal certification, the new plant will provide the needed capacity to enable us to penetrate the growing and relatively untapped Muslim markets in the Middle East, Africa and Indonesia, while freeing up the current Petaling Jaya site for re-development.

In line with the F&B Division's strategy to focus on our core businesses, we ceased our under-performing dairy operation in Vietnam and divested our stake in an infant milk powder plant in China to China Dairy Group, an associate of the Group.

Innovation – Heeding consumer trends with new healthy choices

The key to our future success is in innovation. F&N has been at the forefront of product innovation with our introduction of a wide range of products to meet changing consumer needs. This move has diversified our offerings, creating new opportunities to drive growth.

With the busy and modern lifestyles of consumers in mind, we continued to fulfil the nutritional needs of the nation, inspiring a healthy and enjoyable lifestyle without compromising on taste, while staying true to our promise of *Pure Enjoyment, Pure Goodness.*

Responding to consumers' demands for healthier food and beverage options, *F&N Magnolia* launched a host of new products in the year, including a brand new yoghurt creation: *F&N Magnolia Yoghurt Smoothie*, carrying the Health Promotion Board's *"Healthier Choice"* logo; and a whole new ice cream experience: *F&N Magnolia Smoo* and *F&N Magnolia Yoghurt Petite*, which set F&N as the market leader for healthier snacks.

Both ice cream products were endorsed *"Healthier Snack Choice"*, a new snack category introduced by the Health Promotion Board. A firm favourite, *F&N Magnolia GO!*, a nutritious food drink with malt, was also launched with a fresh new look to match its vibrant taste.

F&N Fruit Tree Fresh's range of fruit juices is at the forefront of health, wellness and enjoyment in its product offerings with its commitment to further innovating taste sensations that pack a punch in healthy goodness. This year, we successfully launched another double superfruit combination, *F&N Fruit Tree Fresh Blueberry Cranberry No Sugar Added Juice*, heavily supported by advertising campaigns that included television, press, bus shelter posters and aggressive sampling.

True to the *F&N NutriSoy* promise of doubling the goodness by combining soya milk with special ingredients, *F&N NutriSoy Almond* marked its debut this year, adding to the delicious range of soy flavours we offer to our consumers.

Dairies profit jumped 72% to

S$61mil

Beer remains a top revenue contributor to our F&B Division. With an extensive network of 36 breweries operating in 13 markets, Breweries seeks to optimise performance in the Asia Pacific region, capitalising on our comprehensive portfolio of over 40 international, regional and local beer brands and brand variants for greater market penetration.

Beer

Reaching out, extending markets

Guided by a strategy of geographical diversification since the early 1990s, Breweries completed its second phase of regionalisation, further strengthening its platform to become a leading brewer in the Asia Pacific region. The network of 36 breweries operating in 13 countries is unmatched by any other Asian brewer, and demonstrates Breweries' on-going commitment to building a strong regional presence and growing shareholder value. Leveraging on our enlarged footprint, this year, Breweries continued to seek growth through regional investments made since 1989, and consolidated our leading positions in our key markets.

As testament to Breweries' successes in its regionalisation and intra-market growth strategies, this year, beer volume continued to improve. As a validation of our brands' strength, Breweries revenue grew 5%, to S$1,352 million, due to higher selling prices and volume growth. Similarly, PBIT rose 11% to S$207 million, despite translation differences and gestation losses from greenfield breweries in China, India and Laos. Through our regionalisation efforts, overseas operations contributed 86% of Breweries' profit, up from 32% in 1989.

Targeted marketing boosts results

In Singapore, our portfolio strategy is working extremely well and, combined with the implementation of highly effective cost management measures and marketing campaigns that resonated with consumers, we reaped the rewards of improved sales volumes and PBIT. Our proactive and strategic marketing initiatives also helped to improve sales in Indochina, Papua New Guinea and South Asia. Effective cost management measures continued to be adopted by the various operations to deliver better performance.

Profit expanded 11% to

S$207mil

New launches find appreciative new markets

Launches of new products helped to stave off challenges such as competition and the effects of the global downturn across the Asia Pacific region. For instance, Vietnam launched *Larue Blue* 33cl and 45cl in the north and this contributed volume to the Indochina cluster which includes Cambodia and Laos. Combined with aggressive cost management measures, Indochina registered another year of growth, with sales volume and profit up on last year. Over in Papua New Guinea ("PNG"), greater market coverage was achieved for *SP Lager*, and sales for *South Pacific Export Lager* were boosted by a refreshed packaging and new bottle launch.

Similarly, the launch of *ABC Stout* in Sri Lanka was a great success and went a good way to contributing to the year's sales in the South Asia cluster. China focused on elevating the equity of its brands and expanding into new channels. For example, *Anchor Ten* was leveraged upon to gain a foothold, priming entry for *Tiger* and *Heineken* brands. China's volume growth is attributable to the success of its expansion plan, fuelled by easier access to markets with improved transportation networks increasing logistical flow. While Hainan maintained its strong market position, we also focused on seeking further growth in South China.

Enhancing capacity and systems to meet future demand

In line with sustaining top line growth, besides continued marketing initiatives to boost the profile and demand of our beer brands, future beer supply will also be met through capacity extensions at existing breweries. During the year, Vietnam increased its licensed capacity to 2.8 million hectolitres, up from 2.3 million hectolitres; and in PNG, upgrading works have been implemented at both breweries located in Lae and Port Moresby with a new brew house, and canning and bottling lines.

The Group is unrivalled in the Asia Pacific with

36 OPERATING BREWERIES

IN **13** COUNTRIES

Successful diversification strategy – overseas operations accounted for

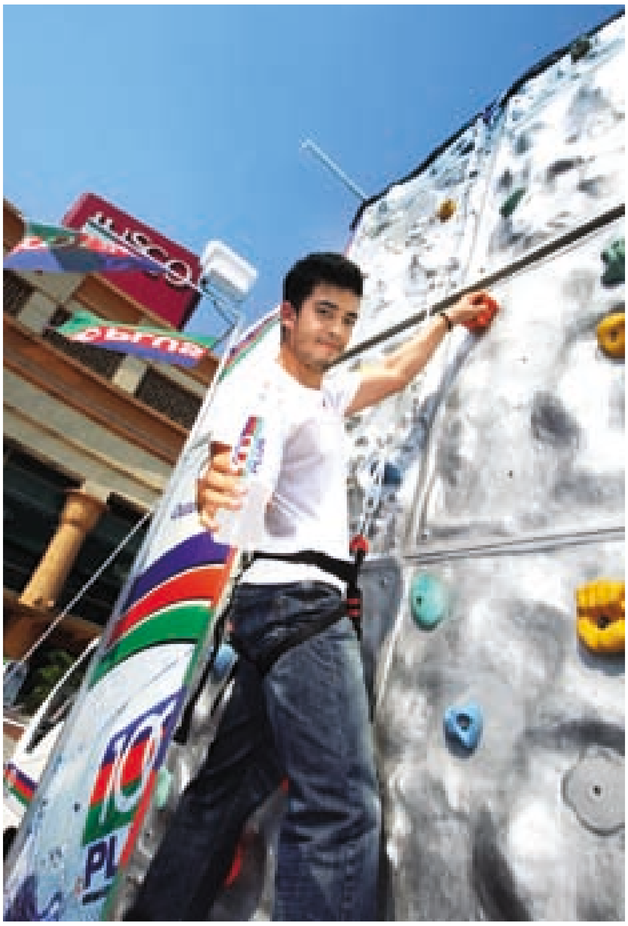
86% PROFIT

Combating challenging economic environments

No area in the region has remained unscathed by the global economic recession. In New Zealand, market conditions continued to be challenging. Increased competition and a shrinking beer market affected volume. A successful tap expansion programme made inroads, driving up sales volumes of *Tiger* draught. However, an unfavourable sales mix, higher packaging costs and an unrealised exchange loss from the revaluation of forward foreign exchange contracts ultimately led to a 79% decline in profit. Excluding the effect of translation loss arising from the 17% decline in the New Zealand dollar and unrealised loss on revaluation of forward contracts, PBIT fell 62%. Although trading conditions are not expected to improve in the short term, measures are in place to address the performance in New Zealand.

Thailand's economic woes were compounded by political unrest, which kept tourist arrivals at bay. Anti-alcoholic laws curtailing alcohol consumption and advertising affected sales. Taking a proactive stance, our Thailand operation ramped up efforts to engage consumers through innovative consumer programmes to boost brand awareness.

The Malaysia brewery, too, continued to be adversely affected by weak economic conditions. Volume fell marginally due to lower contract packing sales while PBIT fell 10% as a result of lower margins arising from an unfavourable sales mix and higher discounts to customers.



Looking Ahead to FY10

Moving forward, we remain focused on our core businesses in Soft Drinks, Dairies and Beer, strengthening our brand presence across a diverse base of geographical markets. We have successfully weathered a challenging year and, undergirded by the various business strategies we have implemented, we are optimistic that we are on a firm footing to ride the recovery expected in the coming year. As we sharpen our focus on our core businesses and markets, we will continue to rationalise under-performing businesses to improve our overall performance.

We will also continue to pursue operations excellence, leveraging our S$250 million investment in dairy plants in Malaysia and Thailand as launch pads for our overseas expansion, and strengthening our route to market in all our businesses.

Committed to making innovation a cornerstone and honing our competitive edge, investment in new product development to satisfy customer needs will remain a key business strategy in order to realise opportunities in existing and new markets to expand our presence and footprint in the Asia Pacific region. In line with this, we will continue to strengthen our product portfolio of consumer favourites such as *100PLUS*, *F&N*, *SEASONS*, *F&N Magnolia*, *Farmhouse* and *F&N Nutrisoy* in Singapore, Malaysia and Thailand, and our various beer brands, spearheaded by *Tiger* and *Heineken* to meet growing consumer demand.