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Fraser and Neave delivers sterling performance with 56% rise in interim EPS to 53 cents

- *Proposes interim dividend of 15 cents and special dividend of 5 cents per share*

SINGAPORE – 16 May 2003 – Mainboard-listed Fraser and Neave Limited (F&N) today announced a robust 56% rise in earnings per share (before exceptional items) to 52.9 cents for the six months ended 31 March 2003.

The surge in EPS was achieved on the back of strong profit growth as well as capital management initiatives undertaken.

For the period under review, attributable net profit before exceptional items rose 40.4% to \$141.4 million, from \$100.7 million previously, while revenue rose 18.5% to \$1.9 billion, from \$1.6 billion.

Improved performance was seen in all the three core businesses - food and beverage; property; and printing and publishing – boosted by the securitization of Compass Point, the retail mall at Sengkang.

Dr Michael Fam, Executive Chairman of F&N said, “Despite the current uncertainties which may adversely affect second half performance, the directors and management are still aiming to achieve profit growth over last year. The management will spare no efforts in delivering on its promise to improve returns to shareholders.”

He added, "To realize this, the three core businesses will continue to improve returns by leveraging on their strong respective brand equity and extensive geographical network, while improving operational efficiencies and synergies between the business units. Besides growing our earnings base, we will also continue to maximize the potential of our balance sheet by re-deploying assets to higher-yielding activities and focusing on asset-light, fee-based businesses."

As part of its ongoing programme to further enhance shareholder value, the Company had undertaken a capital reduction and distribution exercise in FY2002. This reduced the Company's number of ordinary shares outstanding to 267 million shares, as compared to 296 million outstanding as at 31 March 2002.

In view of the strong half-year performance and in commemoration of its 120th anniversary, Directors have recommended a special dividend of 5 cents per share in addition to an interim dividend of 15 cents per share. This brings the total dividend to be paid in the interim to 20 cents per share (net of tax), up 33% from the 15 cents per share paid in the interim last year.

Net asset value per share rose to \$11.74 from \$11.18 as at 30 September 2002.

Review of Operations

At the operating level, trading profit grew 31% to \$287.9 million from \$219.8 million, reflecting an improvement in operating margin to 15.3% from 13.9%.

Soft Drinks

At the soft drinks division, sales grew 7% to \$206.3 million while PBIT grew 14% to \$21.4 million. The Group was able to leverage on its market dominance and product innovations to achieve volume growth and greater share of a relatively flat market.

With improving marketing mix; supply chain productivity and efficiency; and cost reduction initiatives, PBIT margin was boosted to 10.4% from 9.8%.

Dairies

The dairies division saw revenue declining by 9% to \$157.2 million as a result of the cessation of contract packing arrangements. However, PBIT rose 61% to \$7.3 million as the Group benefited from the lower cost of materials.

The new dairy plant in Vietnam, which commenced operations in November 2002, also made a small contribution to revenue.

Breweries

Despite adverse economic conditions in several of its market, the breweries division reported strong performance with sales rising by 14% to \$684.4 million and PBIT by almost 20% to \$99.3 million.

This was contributed mainly by improved sales in New Zealand, Indochina and Thailand, with profit from New Zealand further enhanced by a strong NZ\$. In Papua New Guinea, PBIT improved marginally despite an 8% depreciation of the PNG Kina against the S\$.

In Singapore, operations were affected by the soft economic conditions which were further aggravated by the war in Iraq and the outbreak of SARS.

In China, the brewery in Hainan continued to gain market share while the brewery in Shanghai achieved stable sales. However, results were affected by the sudden withdrawal of VAT exemption in Hainan from January 2003 which resulted in an increase in losses by \$1.6 million.

Glass Containers

Revenue from the glass container business increased by 7.5% to \$56.9 million as contribution from the SMG-2 factory in Sichuan commenced. Despite improved sales, higher pre-operating expenses and fuel oil prices resulted in an 11.5% decline in PBIT to \$6.8 million.

Development Property

Revenue and profit received a significant boost from the securitization of Compass Point in November 2002, which resulted in a 64% rise in revenue to \$414.3 million and a 69% increase in PBIT to \$87.1 million.

During the period under review, the Group soft launched a new project at Boon Lay Way - "Lakeholmz". Sales of other projects were slow in line with the depressed state of the Singapore residential property market.

In the United Kingdom, the marketing of the 35.6%-owned Wandsworth Riverside Quarter is still in progress, having achieved sales of 37 units out of 116 units launched.

In Sydney, Australia, only one unit remains unsold at the Pavilions on the Bay, while 65% of The Habitat has been sold. Both developments are 75%-owned.

In Shanghai, construction of the Jingan Four Seasons development in Luwan District is progressing, while work on the Wujiang Road development will commence shortly.

Investment Property

Despite the poor economic environment which affected occupancy rates at Fraser Serviced Residences, rental revenue slipped only marginally to \$93.2 million while PBIT fell 5% to \$56.2 million. This was mainly due to strong support from the Malls of Centrepoint.

Printing and Publishing

The printing and publishing business benefited from new businesses acquired - Argyle Times Graphics in Australia and Everbest Printing in Hong Kong - and higher publishing sales in Singapore and Europe, which boosted revenue by 17% to \$250.1 million, and PBIT by 85% to \$9.1 million.

The strong performance of the printing and publishing business more than compensated for the soft sales of reference books in the United States and in Japan. Revenue from Retail and Distribution was maintained at the same level with better performance in Australia but poorer sales in Singapore and Malaysia.

Outlook

To mitigate the negative impact of the global and regional events on the domestic economy, the soft drinks and dairies operations will continue rationalization efforts to increase sales and productivity in the coming months. Barring any further deterioration in the situation, soft drinks and dairies are expected to improve their operating performance compared to last year.

The glass operations should also benefit from a new revenue stream with the commencement of operations on 1 April 2003 at the new SMG-1 plant in Sichuan, China.

For the breweries business, in view of the strong performance in the first half, and if the spread of SARS can be contained, results for the full year are projected to be comparable, if not better, than the previous year.

For property development, on-going cost management of development projects will contain the impact of lower sales volume. For investment properties, occupancies and rental income are expected to remain stable.

In line with its strategy to increase its fee-based income, the Group will be looking to provide hospitality management services at other major gateway cities in Asia-Pacific and Europe.

The printing and publishing business is expected to turn in a stronger performance over last year as management continues their relentless efforts to restructure and downsize operations to cut cost and improve profitability. This should offset the lower retail spending on books and publications and soft reference book sales.

“The Group is bracing itself for a difficult period ahead, but we are confident we will ride through these challenging times. Over the past few years, we have revitalized the organization by strengthening the infrastructure, building up the core businesses, opening new markets and expanding activities. With these, we believe that the Group is in a very strong position to deliver long-term sustainable growth and greater shareholder value,” concluded Dr Fam.

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