

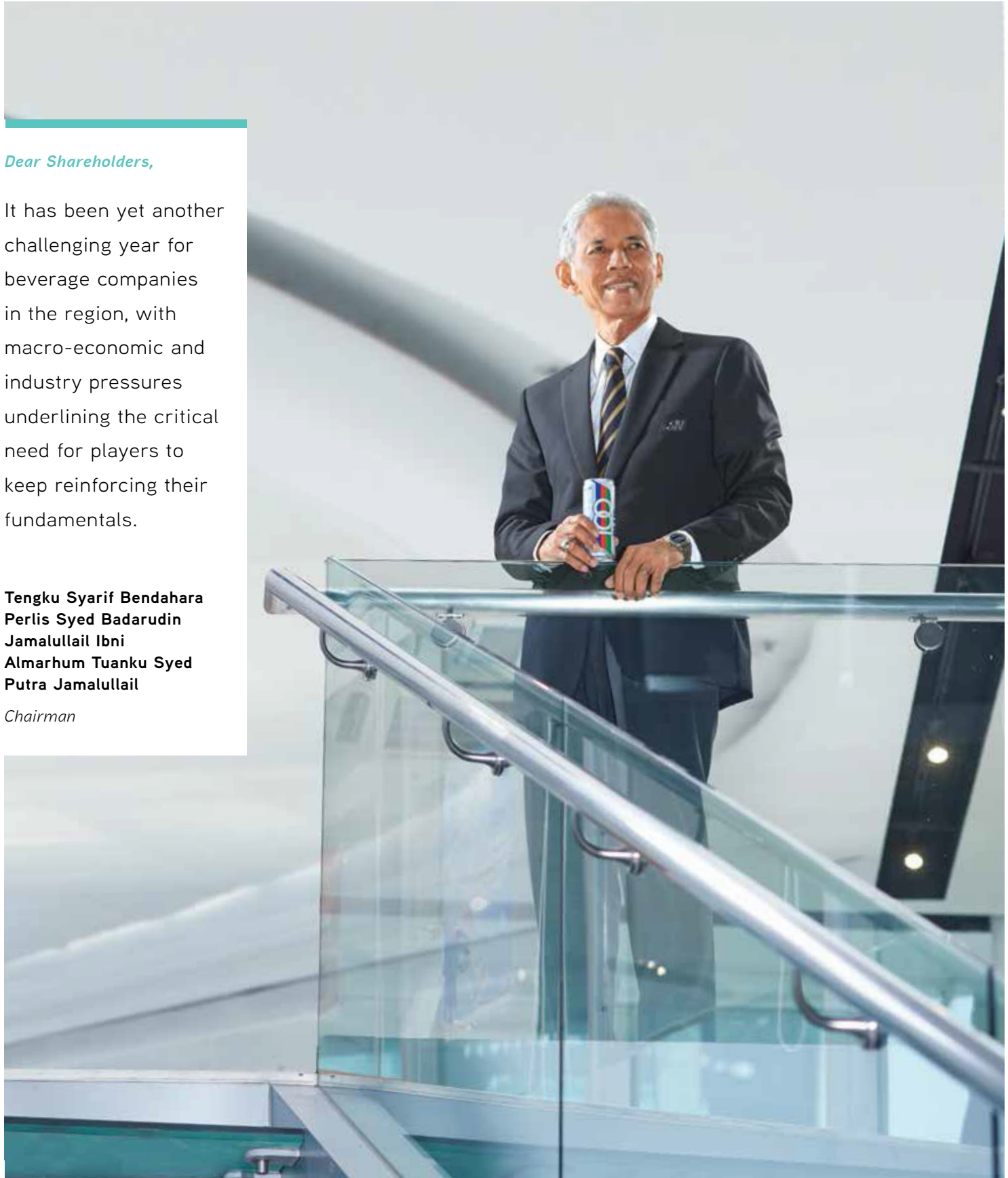
CHAIRMAN'S STATEMENT

Dear Shareholders,

It has been yet another challenging year for beverage companies in the region, with macro-economic and industry pressures underlining the critical need for players to keep reinforcing their fundamentals.

**Tengku Syarif Bendahara
Perlis Syed Badarudin
Jamalullail Ibni
Almarhum Tuanku Syed
Putra Jamalullail**

Chairman



CHAIRMAN'S STATEMENT

"Meanwhile, operational and cost synergies derived from our transformation initiatives, boosted by lower prices of commodities, contributed to a 32.7 per cent hike in profit before tax from RM333.8 million to RM442.9 million."

This is precisely what Fraser & Neave Holdings Bhd (F&NHB or the Group) has been doing throughout our 133-year history, resulting in a progressively stronger organisation able to withstand external headwinds and maintain our competitive edge.

The financial year that has just ended (FY2016) was no exception. It saw the Group embark on a five-year transformation journey that will help us not just survive the tough market but transition into one of the most asset-efficient and profitable beverages companies in the region. Already, we are witnessing some early wins from changes that have been instituted which, together with continued emphasis on effective marketing and strong performance of our brands, allowed us to pull together a creditable financial scorecard.

PERFORMANCE REVIEW

Sales of existing and newly-launched products continued to be robust, leading to a 1.5 per cent increase in Group



revenue from RM4.11 billion in FY2015 to RM4.17 billion. Meanwhile, operational and cost synergies derived from our transformation initiatives, boosted by lower prices of commodities, contributed to a 32.7 per cent hike in profit before tax (PBT) from RM333.8 million to RM442.9 million.

F&NHB's financial stability, and market confidence in the Group, was reflected in our share price which grew steadily from about RM18.30 at end September

2015 to RM24.06 at the end of FY2016. I am also pleased to share that our basic earnings per share increased from 76.5 sen to 105.3 sen.

Further adding value to our shareholders, we are recommending a final single tier dividend of 30.5 sen per share which, if approved at our Annual General Meeting, will amount to a total dividend for the year of 57.5 sen per share, matching that in FY2015.

| REVENUE (RM billion) | PBT (RM million) | BASIC EARNINGS PER SHARE (sen) | DIVIDEND FOR THE YEAR |
|--|---|--------------------------------------|------------------------------|
| +1.5% FY2016 4.17 FY2015 4.11 | +32.7% FY2016 442.9 FY2015 333.8 | FY2016 105.3 FY2015 76.5 | 57.5 sen per share |

CHAIRMAN'S STATEMENT

GEARING UP FOR THE FUTURE

A key transformation initiative was to reorganise our business operations to be more market-centric and enhance customers' ease of doing business with us. This has seen us integrate the Soft Drinks and Dairies Malaysia segments into Food and Beverages Malaysia (F&B Malaysia) while our Thai business now falls under Food and Beverages Thailand (F&B Thailand). Internally, the reorganisation has allowed us to streamline our operations, reducing duplication of functions and optimising value from our assets and resources.

Supporting our Vision 2020, we will be investing significantly to expand the Group, both in terms of capacity and our international presence. During the year, we announced over RM300 million in capital expenditure that will give us greater capacity for economies of scale; minimise our cost structure; enhance our innovative and competitive abilities; and reduce our carbon footprint.

At the same time, we are building our export capacity by strengthening our export team and focusing more intently on halal markets. This has been aided by elevating our halal commitment with a Group Halal Council, through which we have enhanced our halal framework, terms of reference and roles. We will also be working more closely with the Halal Development Corporation, MATRADE and MITI to reach out to new halal markets.

"We announced over RM300 million in capital expenditure that will give us greater capacity for economies of scale; minimise our cost structure; enhance our innovative and competitive abilities; and reduce our carbon footprint."

CORPORATE GOVERNANCE

Corporate governance remains one of the Board's key concerns, and I am pleased to note the Group has continued to abide with all governance guidelines issued by regulators in the countries where we are based. Our governance structures are not static, but evolve along with the external business environment and our responses to it. Accordingly, during the financial year, we developed a new Group Chart of Authority (COA) aligning our restructured business units with authority limits based on their scope and functions. We also introduced a new Group Procurement Policy to ensure consistency and transparency across the entire organisation.

The Group has always maintained a high level of transparency, and was rewarded for our efforts when we were commended by the Asian Corporate Governance Association (ACGA) in its CG Watch 2016 for disclosure on the sugar content of our products.

Our commitment to operating at the highest level of integrity, transparency and professionalism has strengthened the Group's inherent value, and has drawn numerous industry accolades. This year, we were honoured by three prestigious awards that reflect the quality of our people, our principles and our business. These were: the ASEAN Business Awards Malaysia 2016 in ASEAN Excellence – International category by the ASEAN Business Advisory Council (ASEAN-BAC) Malaysia; the Malaysian Beverages Company of the Year 2016 in the Ready-To-Drink Industry from Frost & Sullivan; and the CIO Asia Award 2016 in the Performance category.

CHAIRMAN'S STATEMENT

CORPORATE RESPONSIBILITY

Over the years, we have invested considerably in developing drinks that are healthier without compromising on taste, as we consider this part of our social contract. As a result, the total sugar index of our beverages has decreased by 28 per cent since FY2004. This financial year, we added F&N Magnolia UHT Milk, F&N Magnolia Kids UHT Milk and F&N NutriSoy Lite to our portfolio of more nutritious beverages.

In line with our commitment to promoting a healthier lifestyle, we continue to play a major role in various sporting activities. In FY2016, we pledged sponsorships worth RM3 million to the 29th SEA Games and 9th ASEAN Para Games through the 100PLUS brand. We further reinforce our corporate citizenry by supporting less fortunate communities; and during the year we donated RM200,000 to the Spastic Children's Association of Selangor & Federal Territory's Redevelopment Programme and RM300,000 to Media Prima's charity fund 'Tabung Bersamamu'.

The same sense of corporate responsibility has guided us in developing and nurturing our employees with innovative Human Resources practices, policies and strategies. Our efforts have not gone unnoticed, as F&NHB was named one of Asia's Best Employer Brand 2016 by the Employer Branding Institute.

In addition to supporting the career progression of our employees, we also inspire their children to perform well academically and in co-curricular activities by presenting the F&N Chairman's Award to those who achieve outstanding results. Since the award was institutionalised in 2003, we have given out over RM3 million under the programme, and the total pay-out this year, at RM367,000, is our highest ever.

Further underpinning our commitment to corporate responsibility (CR), we make a conscious effort to minimise the environmental impact of our operations. Our environmental and other CR initiatives are outlined in greater detail in the Corporate Sustainability section of this annual report.

ACKNOWLEDGEMENTS

I feel fortunate to have on the Board a group of exemplary directors whom I would like to thank for their sound leadership and wise counsel. This year, we bid farewell to Datuk Chin Kwai Yoong who was an Independent Non-Executive Director since 2013. On behalf of my colleagues, I would like to record our appreciation for his valuable contributions to the Group, and wish him the best in his future undertakings. At the same time, we welcome Mr. David Siew Kah Toong who brings with him a wealth of experience as a new Independent Non-Executive Director.

The Board has been working closely with Management on the Group's transformation and, during a Board Strategy Retreat that took place in May this year, we developed a roadmap charting F&NHB's future growth to entrench our sustainability. I would like to express my gratitude to the Management for guiding the Group seamlessly into this new phase of transformation; and all our employees for taking the ongoing changes well in their stride.

My thanks further extend to our business partners, suppliers and distributors who have been instrumental to the Group's long and successful journey to date, and with whom we will continue to collaborate to achieve our vision.

Tengku Syarif Bendahara Perlis Syed Badarudin Jamalullail Ibni Almarhum
TuanKu Syed Putra Jamalullail
 Chairman

