

CHAIRMAN'S STATEMENT

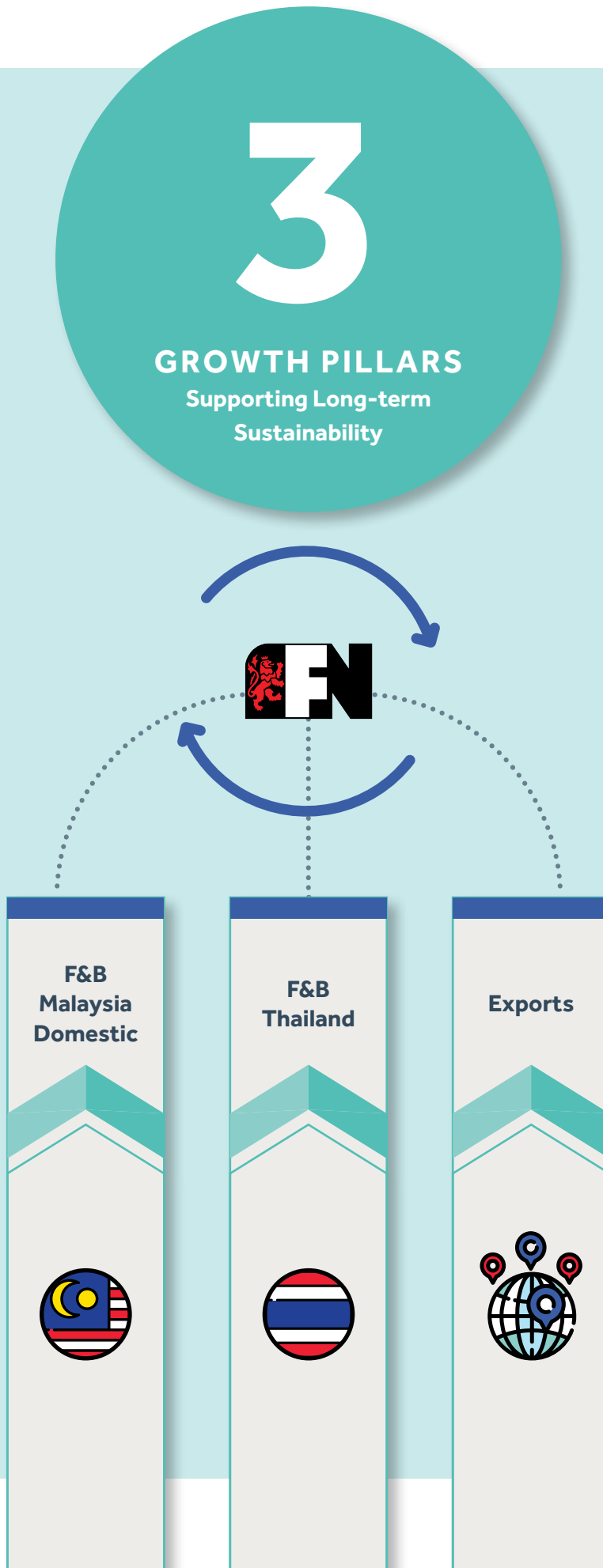
Chairman

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

Dear Shareholders,

Undeterred by a tough macro-environment marked with increasing competition and input costs compounded by the prolonged weak consumer sentiment, we surged ahead with the business transformation we had embarked on since October 2015. During the financial year 2017 (FY2017), we made structural changes critical to our long-term success. As a result, Fraser & Neave Holdings Bhd (F&NHB or the Group) is today a leaner, more efficient organisation to move the Group to the next level of our journey in creating sustainable growth.





CREATING VALUE FOR SHAREHOLDERS

Our transformation reflects the same principle that has enabled F&NHB to weather many storms during our 134-year history, and which will see us through many more in the future. This is our willingness to embrace short-term impact for long-term sustainability.

During this period of consolidation, the Group's top-line eased 1.6 per cent to RM 4.1 billion while higher input costs and a one-off restructuring cost resulted in a 20.1 per cent decline in profit before tax to RM 353.7 million compared to the same period last year. Excluding the one-off items, the Group's profit before tax contracted, by 2.3 per cent to RM 406.4 million from RM 416.2 million in FY2016. What this means is that through the various transformational programmes, the upswing in commodity prices have been largely absorbed. In the long term, we are confident that the changes implemented will enhance our financial performance and add to our already substantial shareholder value.

An investor who held on to his F&NHB shares over the last 10 years to date would enjoy a return on investment (ROI) of more than 290 per cent. This stems from a steady increase in our share price – from RM 8.05 in October 2007 to RM 24.66 as at 29 September 2017 – as well as the dividends we have been declaring over the same period.

For the FY2017, 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 FY2016.

THREE GROWTH PILLARS SUPPORTING SUSTAINABILITY

To ensure we stay focused in our journey of transformation, we have grouped our businesses into three independent growth pillars—Food & Beverages Malaysia Domestic (F&B Malaysia Domestic), Food & Beverages Thailand (F&B Thailand) and Exports – each tasked with profitable growth to support a sustainable F&NHB.

Growth in F&B Malaysia Domestic is being driven by the transformation initiatives to extract synergies from commercial alignment and enhanced operational efficiency, as well as significant capital expenditure (capex) to increase capacity and decentralise our operations. Since 2015, we have allocated more than RM 500 million to capex projects over a period of

three years. At the same time, we have put our property developments on hold as we believe the current economic landscape does not warrant their development and sale.

For F&B Thailand, while we are gratified with the successes achieved in just 10 years since the acquisition, there is greater scope for expansion; and the team is leveraging opportunities available through innovative initiatives. The culture of innovation in our Thai operations is so eminent this financial year that the team received the Diamond Thailand Kaizen Award from the Technology Promotion Association (Thailand-Japan) for the best employee-driven productivity enhancement project in the country.

To grow our Exports, we have enlarged our team and nurtured an entrepreneurial approach towards international business

development. Having established close links with the Malaysia External Trade Development Corporation (MATRADE), we are able to leverage the agency's global footprint, especially in the halal market where we have a natural advantage as our operations are halal certified.

I am very pleased with the strong double-digit growth in the Exports business. Amidst the challenging economic and market landscape in the domestic front, our investments in capability and capacity expansion to transform the Exports business into a growth pillar for the Group have proven to be profitable and timely.

Going forward, we are confident that through the transformation programme we will be able to maximise growth opportunities for exports from Malaysia to surpass its RM 500 million sales target ahead of 2020.

Group Revenue (RM billion)



SUSTAINABILITY REPORTING

The Board sees sustainability as being integral to good governance and a way for us to help preserve our planet for the future generation, and is therefore taking the lead in F&NHB's sustainability journey. The Group Executive Committee takes on the role of a Steering Committee at the Board level, providing strategic counsel to F&NHB's Sustainability Management Committee (SMC) on sustainability matters for the Group.

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To ensure alignment of the Board and management on sustainability, all Board members attended a materiality workshop last August to understand best practices in sustainability as well as the Global Reporting Initiative (GRI) reporting guidelines. The workshop output has served as a framework for our management approach and reporting process on the Group's key economic, environmental and social (EES) material aspects.

While we have been reporting on the Group's sustainability practices in the past, the Board is pleased to present our first GRI G4 Sustainability Report this year.

BUILDING TRUST WITH STAKEHOLDERS

Through both our Annual Report and Sustainability Report, we seek to create greater transparency of the Group's actions to strengthen the trust our stakeholders have in us. Consumers' trust in our products is particularly important as our unique legacy is embedded within the socio-economic fabric of generations of Malaysians.

To maintain their trust, we place great emphasis on quality and relevance, and invest substantially in Research and Development (R&D) to develop products that meet shifting consumer expectations. In recent years, this has meant innovating to offer products that are delicious yet cater to the healthier lifestyles. During the year, we were extremely pleased when four products – F&N Magnolia Lo-Fat Hi-Cal Milk, FARMHOUSE Fresh Milk, 100PLUS ACTIVE and 100PLUS Original – attained the Healthier Choice logo launched by the Ministry of Health. We aim to offer healthier choices in each of our product categories by 2020.

It gives me great pleasure to share that our efforts to build trust with stakeholders have been recognised. In September 2017, F&NHB was one of 20 finalists of the PwC Malaysia Building Trust Awards (BTA).



1st GRI G4
Sustainability Report



F&N Dairies
Manufacturing Malaysia:
Energy Management Gold
Standard from the ASEAN
Energy Management Scheme



F&N Dairies Thailand:
Prime Minister's Industrial
Award 2017 for Environmental
Quality Conservation

Basic Earnings
per Share

88.3 sen

Dividend for
the Year

57.5 sen
per share

Dividend
Payout Ratio

65%

Group Profit Before Tax (RM million)



RESPONSIBILITY TO THE COMMUNITY AND PLANET



15th Chairman's Award:
RM 286,600 awarded to
130 children of our employees
for academic and extra-
curricular excellence



100PLUS team recognised as
Putra Marketer of the Year
from the Putra Brand Award's
Board of Governors

F&NHB has a strong track record of giving back to the community in ways that are meaningful. We have always been a staunch supporter of sporting events in the country, and this year contributed to the nation's spectacular hosting and performance by Malaysian sports men and women in the SEA Games where 100PLUS was the Official Isotonic Drink. We also expanded our school recycling programme by taking it to Kuching and Seberang Prai for the first time while attracting the participation of more schools in Shah Alam and Penang island.

Our recycling initiatives are part of a broader commitment to addressing environmental issues such as climate change. We have always sought to minimise our environmental footprint through energy efficiency and reduced raw material consumption, hence also waste production; and have been recognised for our efforts. This year, I'm proud to share, F&N Dairies Manufacturing Malaysia was presented the Energy Management Gold Standard from the ASEAN Energy Management Scheme while F&N Dairies Thailand received the Prime Minister's Industrial Award 2017 for Environmental Quality Conservation from the Ministry of Industry and the Thai Government.

Within the Group itself, we continue to engage our most important stakeholders – our employees – through regular communication and the provision of training and development opportunities that support our employees' professional ambitions. Reinforcing our employee relations, we presented our 15th Chairman's Award this year, distributing RM 286,600 in cash to 130 children of our employees who have shown exemplary achievements in their academic and extra-curricular activities. We take pride in them and hope that with a little motivation from the company, they will be encouraged to strive harder for future successes.

Our community and environment initiatives are outlined in greater detail in the Sustainability Report.





ACKNOWLEDGEMENTS

F&NHB's transformation has placed added pressure on various parties; yet everyone has risen to the occasion, ensuring the success of the ongoing programme.

In May, my colleagues on the Board took time off from their schedules to attend a two-day annual strategic retreat during which they were thoroughly engaged in all critical strategy discussions, decision and vision-making processes. They have shown themselves to be perhaps the most visionary Board in F&NHB's history, and I would like to express my gratitude to all our Directors for helping to shape a more sustainable F&NHB.

I would like to say a special thank you for the dedicated services of Dato' Dr. Mohd Shahar bin Sidek, Dato' Anwarudin bin Ahamad Osman, Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani, and Mr. Anthony Cheong Fook Seng who have served the Board for 14 years, 12 years, 11 years and 15 years respectively, and who will be retiring at our upcoming Annual General Meeting (AGM). On behalf of the rest of the Board, we wish you the best in future undertakings.

The Board would like to thank the management team and assure them of our continued support. We have full confidence in their ability to further strengthen the Group's sustainability as we strive to achieve our goals.

At the same time, we recognise the commitment of all our employees to F&NHB, and would like to extend our heartfelt gratitude for their hard work. The marketing team of 100PLUS deserves special mention, having won the Putra Marketer of the Year from the Putra Brand Award's Board of Governors. Kudos to the team – we look forward to many more successes to come!

Last but not least, I would like to record my appreciation to our many business partners, suppliers and distributors for their unstinting support to the Group this year.

F&NHB's performance is the result of the actions of all our stakeholders, and we are committed to creating sustainable value and sharing our successes with you.

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