

STRATEGIC REPORT:

*Chief Executive
Officer's*
Statement

LIM YEW HOE

Chief Executive Officer



Dear Shareholders and Stakeholders,

The last few months have been exceedingly challenging due to the COVID-19 pandemic, with movement restrictions impacting everyday life as well as economic activity. Amidst the containment measures and subdued outdoor activities, Fraser & Neave Holdings Bhd (F&NHB or the Group) maintained commendable top and bottom lines in the financial year ended 30 September 2020 (FY2020). More importantly, we made good progress in strategic plans set out for the year 2020 despite the unfavourable circumstances. This was mainly the result of years of focus on creating greater efficiencies as part of our transformation to become a sustainable beverage leader in the region.

Our focus on three strategic priorities, namely Innovation, Cost Competitiveness and Excellence in Execution (I.C.E.) provided the clarity and purpose to navigate through these unprecedented times. The hard work and dedication of our people, as well as the strong relationship and collaboration with suppliers, trade partners and regulatory agencies have enabled us to emerge with better results than anticipated.

Although the beverages markets in Malaysia and Thailand shrank by double digits, we either maintained or grew our leadership in key categories, indicating our effective route to market strategies and strengthened brand value among our customers and consumers.

SERVING UP INNOVATION

PRODUCTS THAT RESONATE WITH CONSUMERS

During the pandemic crisis, while prioritising the availability of our core products, we pushed ahead with product innovation to deliver value choices that resonate with consumers.

One natural outcome of COVID-19 has been the more apparent importance of health and wellness, and it is in this direction that we have been innovating on new products for several years. Half of the ten new products launched this year offer health benefits in different forms.

In Malaysia, we launched three beverages with no sugar at all, namely 100PLUS Zero, F&N ICE MOUNTAIN Sparkling Water and OYOSHI Zero-Sugar Green Tea. We also launched Sunkist Pure in two premium variants, orange and lemon apple. In Thailand, we introduced Carnation Plus, a zero-fat sweetened condensed milk with 25 per cent reduced sugar boasting the highest milk content in its category.

By financial year-end, the number of products carrying the Healthier Choice Logo (HCL) endorsed by the Malaysian Ministry of Health or Thailand's Ministry of Public Health increased from 41 at end FY2019 to 47.

Perhaps the most exciting innovation this year was our F&N ready-to-drink (RTD) Teh Tarik. It has not been easy to get the recipe right for this perennial Malaysian favourite. After years of testing different combinations of tea leaves with condensed and evaporated milk, our F&N Teh Tarik Ori and Teh Tarik Less Sweet taste like what you would get at mamak stalls or restaurants.

Further underlining our spirit of innovation, we ventured into two new product categories. In Thailand, for the first time, we produced milk candy tablets under the brand Magnolia Milkies. In Malaysia, TEAPOT Sweetened Beverage Creamer squeeze tubes positioned as spread and topping entered the market, signalling our entry into the adjacent ready-to-eat category.

We now also have an eco-friendly packaging option for F&N ICE MOUNTAIN Drinking Water using recyclable paper that is Forest Stewardship Council (FSC) certified, while the caps are bio-based, made from sugar cane.

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STRATEGIC REPORT:

Chief Executive Officer's Statement (Cont'd.)**VALUE-ADDING FOR CONSUMERS, CUSTOMERS & BUSINESS PARTNERS**

Value creation for consumers and customers is always given top priority at F&NHB, and we continued to find new ways to do this. For consumers, we offered value trade-up deals such as 1.7L bottles of carbonated soft drinks for the price of the 1.5L versions. We also ensured a presence in every price tier, especially the more affordable ones in the current climate of growing cost-conscious consumers.

We also work closely with our customers on product and application development to meet their specific needs.

This resulted in innovative packagings such as the 1kg stand-up pouch of evaporated milk for the foodservice channel in Thailand. Carnation and TEAPOT Evaporated Milk in 1 kg pouch were highly sought after by hawker customers to gain savings, who have been especially impacted by COVID-19. By September 2020, we were selling about 25,000 cases per month compared to 5,000 cases at launch.

For the export market, we introduced 1 metric tonne packaging for sweetened condensed milk (catering specifically to F&B manufacturers); and 160g cans for evaporated milk. Along with co-branding, the differentiated pack sizes that could cater to every need has helped us expand our global customer base and drive higher growth for our Exports business.

INNOVATIVE MARKETING TO STRENGTHEN CUSTOMER & CONSUMER TIES

The new normal means a shift in marketing investment, resources and strategy to quickly adapt to consumers' new consumption behaviour. At F&N, we continued to focus on meeting customers and consumers' satisfaction by adopting innovative approaches to boost customer experience and e-commerce engagement.

In Thailand, we intensified efforts in building brand loyalty and visibility with our hawker customers through a loyalty programme that utilises innovative digital media. The team also kept our large community of hawker customers in Thailand, Cambodia and Laos updated with the latest campaigns and recipes through LINE app, which now has more than 8,000 members. This year, we have also started a web-ordering system in Thailand through F&N Dairies Thailand's website to target foodservice customers as well as online shoppers.

In Malaysia, the team went out of the way to ensure Ramadan and Hari Raya celebrations would be as festive as usual despite the different circumstances. We offered special bundles for a wide range of products on F&N Life, our new e-commerce store; and helped consumers re-create their favourite Ramadan Bazaar food and drinks at home through the 'Gerai Rasa Raya' (Taste of Raya) Campaign.

The launch of F&N RTD Teh Tarik in April 2020 was especially meaningful as this was in the middle of the Movement Control Order (MCO) when Malaysians could not frequent their favourite mamak hangouts. Unable to organise a physical event, we introduced the product on social media with an online mamak teh tarik session which gained entry into the Malaysia Book of Records for the largest participation for an event of its kind.

Undeterred by restrictions on outdoor activities, the 100PLUS team, through live **#StayFitwith100PLUS** online workouts, continued to encourage Malaysians to stay fit during the pandemic by maintaining an active lifestyle at home.

**COST COMPETITIVENESS****INVESTING FOR FUTURE**

We continuously expand our capabilities while optimising our operational and cost efficiencies as we believe in the long-term attractiveness of our market. As more of our capital expenditure (capex) projects come to fruition, the added capability to expand our product offerings, as well as the capacity to fuel export business, will improve our economies of scale. I am pleased to share that despite the inevitable delays caused by movement restrictions, we completed three significant capex projects during the year.

In February 2020, we commercialised a new milk candy tablet line to produce Magnolia Milkies at our plant in Rojana, Thailand. This was followed by the commissioning of a new solar photovoltaic (PV) system at the plant in April. The 30 million Baht solar roof, with a generating capacity of 1MWp, has reduced the plant's energy offtake from the grid, lowering both our energy cost as well as our carbon footprint.

In April, we also commercialised a new pasteurised product line at our Pulau Indah plant as part of a general shift towards in-sourcing for better management of costs, quality and supply guarantee.

Two other capex projects are still ongoing and expected to be completed in FY2021, namely:

- RM182 million integrated warehouse in Shah Alam equipped with an Automated Storage Retrieval System (ASRS) which will have a capacity to store over 50,000 pallets
- RM20 million drinking water line and warehouse in Kota Kinabalu Industrial Park (KKIP).

Additionally, we embarked on two significant projects that are also expected to be completed in FY2021:

- A 20,000-square metre Regional Distribution Centre (RDC) in Rojana to be equipped with an RM40 million ASRS.
- A renewable energy programme that entails the setting up of solar PV systems at Shah Alam, Pulau Indah and Bentong plants in Malaysia.

EXCELLENCE IN EXECUTION

ENSURING PRODUCT AVAILABILITY

Our suppliers and distributors are integral to our success as a consumer goods company. To ensure minimal disruption to our production and maintain an adequate inventory of core products during the MCO in Malaysia and the emergency decree in Thailand, we regularly engaged with our trade partners. We also conducted a supplier assessment exercise and took steps to help those unable to meet their business obligations. This included engaging the Ministry of International Trade and Industry (MITI) on behalf of suppliers for permission to resume operations during the MCO. At the same time, we extended our credit lines to several distributors to help ease their financial position.

Essentially, strong relationships with our diverse pool of suppliers in Malaysia and Thailand helped to maintain the sustainability of our supply chain.

GOING DOWN THE RIGHT ROUTES

As important as having the right products, it is equally important to offer them through the right channels via effective route-to-market strategies.

Launched in January 2020, it was fortuitous that our flagship online store, F&N Life, was up and running when the pandemic hit. Having scaled up our online operations in March to provide consumers with easier access to our products during the MCO, F&N Life now offers no less than 250 product types while achieving more than 20,000 user downloads in less than a year. More than just serving as an e-commerce platform, our vision is for F&N Life to become a lifestyle super app. At the same time, we are also working more closely with e-commerce partners in Malaysia, Thailand and overseas markets to expand the reach of our products to a wider audience.



Deepening our market penetration, in Malaysia, we embarked on two initiatives that are gaining traction. The first is a wholesaler bundling programme. The second has been to launch F&N cash sales vans to serve semi-urban and rural areas. At the same time, we have expanded our direct distribution network with a growing number of customers in Central Peninsular Malaysia and East Malaysia.

In Thailand, the team continue to strengthen our distribution network and increase coverage by 2,000 new outlets despite muted demand from general trade and foodservice channel due to the emergency decree. This is attributed to strong operational execution and successful trade programs to build brand visibility and availability.

Excellence in execution has enabled us to maintain our leadership in our core categories. In Malaysia, we are No.1 in the carbonated soft drink, tea and canned milk segments. In Thailand, we have retained our leadership in the evaporated milk and total sweetened beverage creamer (SBC) markets with Carnation heading the superior segment and TEAPOT maintaining its strong position in the mainstream segment.



STRATEGIC REPORT:

Chief Executive Officer's Statement (Cont'd.)**DIGITALISATION AT WORK**

An ongoing focus at F&NHB is to leverage digital technologies to optimise the entire value chain of our operations. Along with this digital transformation, we are ensuring that our people have the skills to adapt to and use emerging technologies to work better and smarter. We are providing relevant training, and have teams looking into the integration of artificial intelligence (AI) as well as big data into our systems. We are also bringing a greater diversity of talent on board to accelerate a new, data-driven way of working.

To encourage a digital culture at work, in January 2020, we launched the Fraserians Connect App in Malaysia. This serves as an effective communication tool enabling us to keep our employees up-to-date with the latest news and happenings in F&N. During the MCO in Malaysia, employees get frequent and timely updates on work arrangements, guidelines and memos relating to the pandemic via the app. At the same time, we ensured our people continue to receive adequate training by introducing more online modules.

SAFEGUARDING THE WELL-BEING OF OUR PEOPLE

One of our key priorities during the current pandemic is to protect our employees' well-being. To do this, we have made greater use of digital media and video conferencing to replace physical meetings and business travel. Our annual employee townhall was conducted virtually for the very first time. We adopted flexible work arrangements for office-based employees and encouraged our employees to work from home, even when this was not mandatory.

We are also ensuring that strict hygiene and standard operating procedures (SOPs) are adhered to in our workplaces. These include daily enhanced cleaning of work areas and common areas after every shift, regular special chemical sanitisation, daily temperature monitoring of employees working on site, and social distancing practices.

Recognising that some of our people may have faced financial pressures during these difficult times, we paid out our fixed bonus component earlier than usual. We deferred the monthly deductions for motorcycle loans while also providing an additional weekly allowance to frontline employees during the MCO. To help our employees cope with personal or psychological stress caused by the pandemic, we also set up an employee assistance careline.



1. 100PLUS Zero 2. F&N ICE MOUNTAIN Sparkling Water – Original, Lemon and Grapefruit 3. F&N Teh Tarik – Ori and Less Sugar 4. No Sugar OYOSHI Gold Kabusecha, No Sugar OYOSHI Gold Sencha 5. Sunkist Pure – Orange and Lemon Apple 6. TEAPOT Squeeze Tube – Plain, Gula Melaka & Pandan 7. F&N Fruit Tree Fresh Reduced Sugar Soursop with Nata De Coco

FINANCIAL PERFORMANCE

Maintaining business as usual as efficiently as possible under the circumstances, F&NHB concluded FY2020 with a resilient performance sustained by stronger performance in the first quarter and recovery in the fourth quarter, as well as a generally robust Exports performance.

Amidst the prolonged COVID-19 containment measures and subdued outdoor activities, the Group's revenue contracted minimally by 2.2 per cent, from RM4.08 billion in FY2019 to RM3.99 billion. Profit after tax (PAT), meanwhile, came in at RM410.1 million, almost mirroring the RM410.2 million achieved in FY2019 despite continuing uncertainty and commodity price pressures. This was mainly the result of concerted efforts to manage our costs.

New?



1. Carnation Plus SCM 0% Fat, 25% Reduced Sugar
2. TEAPOT Squeeze Tube – Matcha, Mango
3. Magnolia Milkies Tablet – Classic Malt, Hokkaido Milk, Strawberry Yogurt

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Against a challenging backdrop, total exports from **Malaysia and Thailand contributed RM796 million revenue** to the Group this year, a noteworthy achievement in light of the pandemic. We would have overachieved our target Group export sales of RM800 million in FY2020 under normal circumstances. ”

F&B MALAYSIA

Sustained demand for dairy products, boosted by in-home consumption, moderated the contraction in F&B Malaysia's performance this year. Further aided by fourth-quarter domestic recovery and strong exports, revenue from our Malaysian operations declined moderately by 5.7 per cent from RM2.16 billion in FY2019 to RM2.04 billion during the period under review.

Along with the lower revenue and higher input cost (mainly skimmed milk), operating profit for F&B Malaysia decreased by 10.0 per cent to RM144.9 million. Excluding the RM7.8 million gain on disposal of “TEAPOT” trademark to F&N Global Marketing Pte Limited, a direct wholly owned subsidiary of Fraser and Neave, Limited (F&NL) and effects of one-off and non-operating items in both years, F&B Malaysia operating profit declined by 16.8 per cent.

F&B THAILAND

F&B Thailand delivered a resilient full year performance attributed to successful tactical strategies as well as recovery in Indochina and export markets, which compensated the temporary contraction in general trade and foodservice channels due to the emergency decree. In FY2020, F&B Thailand posted revenue of RM1.94 billion, up by 1.8 per cent from RM1.91 billion in FY2019.

Aided by favourable RM/THB forex translation, F&B Thailand's operating profit improved 5.3 per cent (2.0 per cent in Thai Baht terms) to RM381.0 million due to prudent cost control over overheads and advertising and marketing spend.

EXPORTS

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Exports from Malaysia grew by double-digit driven by more robust sales to the Middle East and Africa, and ASEAN markets. Our focus on halal markets is already bearing fruit, as evidenced by revenue from halal markets exceeding the RM100 million target.

Indochina markets (managed by F&B Thailand) also performed strongly this year with Cambodia and Laos collectively contributing over RM200 million in revenue, driven by successful expansion of distribution and reach. Today, TEAPOT is the market-leading brand in condensed milk market in both Cambodia and Laos.

Exports accounted for 20 per cent of the Group's total revenue in FY2020, up from 18 per cent in FY2019. This was aided by further expansion of our markets, which now comprise 82 countries.

In December 2019, we achieved a milestone with the incorporation of Fraser and Neave MENA DWC-LLC, our first international office, in Dubai, which will serve as a strategic base to develop opportunities in the Middle East and North Africa (MENA) regions.

STRATEGIC REPORT:

Chief Executive Officer's Statement (Cont'd.)

INCLUSIVE GROWTH

COVID-19 has reaffirmed the importance of our stakeholders to our business sustainability, placing greater urgency on managing the environmental and social risks that could affect them. It pleases me to share that, as a result of having in place an inclusive growth strategy, we were able to build on and further strengthen various initiatives that create stakeholder value.

RESPONSIBLE SUPPLY CHAIN

We are reinforcing our social and environmental stewardship by ensuring positive impacts along our supply chain. This year, we achieved three milestones in this regard:

- F&NHB became part of the world's first fully sustainable end-to-end sugar supply chain through the Buyers Supporting VIVE Programme.
- Having completed our target of purchasing Roundtable on Sustainable Palm Oil (RSPO) credits for all our palm oil requirements, we now target to use only RSPO-certified palm oil by 2025.
- We have become a founding member of a coalition of manufacturers that seeks to promote a more sustainable future through the recycling of post-consumption packaging waste.

REDUCING OUR CARBON FOOTPRINT

We recognise the critical need to mitigate climate change and fully support the Government's target of reducing the country's greenhouse gas (GHG) intensity. Towards this end, we are installing 10 MWp of solar energy capacity at our plants in Malaysia. Once completed in 2021, this will generate clean energy equivalent to the electrical consumption of 3,700 typical households in the country. Come 2022, we will achieve at least 20 per cent clean energy requirements for Malaysia.

Our capex projects further reduce our carbon footprint. The installation of the ASRS in our warehouses in both Malaysia and Thailand means less shunting between third-party warehouses and our factories; and minimises use of forklifts, thus cutting our fuel usage and greenhouse gas emission.



DELIVERING VALUE TO DRIVE SOCIAL PROGRESS

The sheer size and reach of our operations lend us the potential to create positive social and economic value. Leveraging on our position, we strive to empower various segments of the community.

For example, we partner with the Halal Industry Development Corporation (HDC) to help small and medium enterprises (SMEs) qualify as halal vendors. Our contributions to the halal ecosystem in Malaysia were recognised this year through the Halal Food and Beverage Excellence Award during the World Halal Conference 2020. F&N Dairies (Thailand) Limited, meanwhile, was named Thailand Best Halal Company of the Year 2020 by the Central Islamic Council of Thailand (CICOT) in Bangkok.

In Thailand, building on a long-established relationship with dairy cooperatives, we established a three-year Farming Excellence programme in 2019 which is helping 2,200 dairy farms enhance the quantity and quality of their milk while also reducing energy consumption and waste. This will translate into higher productivity and income for the farmers.

Meanwhile, maintaining our support for the marginalised, we directed our efforts this year towards helping them overcome the difficulties brought about by the pandemic. Special focus was given to frontliners, whom we kept energised as they helped keep the nation safe. Since the viral outbreak in Malaysia, F&NHB has distributed more than one million products in both Peninsular and East Malaysia.

More details about how we deliver inclusive growth while managing our impact can be found in the Sustainability Statement in this report.



OUTLOOK AND GOING FORWARD

Given the ongoing COVID-19 pandemic, as well as local and global uncertainties, the Group is cautious regarding the immediate future. At the same time, the pandemic has provided us an opportunity for a reset and to 'reimagine' our business strategies to fuel growth and innovation.

As mentioned in the previous annual report, we are looking to diversify into dairy farming. Although the proposed acquisition of land in Chuping, Perlis did not pan out, we still believe there is huge potential for growth in the liquid milk sector. We will continue to evaluate and seize opportunities to realise our ambition. While delaying some of our longer-term strategic initiatives, the pandemic has given us time to reassess our objectives and better prepare us to make quicker decisions when the time comes.

In terms of Exports, we aim to set up more international offices, following the Dubai model. The path towards building another significant pillar i.e. Exports, will continue and be intensified.

To summarise, we can expect another challenging year. However, we have identified many opportunities that present attractive long-term prospects and will be channelling our resources towards these. Our journey forward will be driven by a new five-year roadmap that builds on the momentum of Vision 2020. Called Passion 2025, it will see us focus on further developing our brands, reach and professionalism. Our goal is to be more significant in significant markets. And I believe we have what it takes to make this happen.



Maintaining business as usual as efficiently as possible while safeguarding the well-being of our employees and the community remains a top priority. **We will continue to focus on process improvements and digitalisation, and relentlessly pursue opportunities to build a stronger, more sustainable business for the future through continued investments in capex and our brands.**



ACKNOWLEDGEMENTS

To conclude, I would like to thank all our stakeholders for helping to maintain F&NHB on our ongoing journey. Each of our consumers, customers, suppliers, distributors, investors, shareholders, regulators and the community partners play an integral role in our success. We fully appreciate your contributions and are committed to reciprocating by creating value for you.

Most of all, I would like to thank everyone at F&NHB for your passion and dedication to the Group. I would especially like to extend my gratitude to all employees who have risen to the challenge of keeping our business going during these turbulent times. Your commitment to our vision and values is inspiring and lends every reason for us to smile at the prospects of a brighter future to come.

Lim Yew Hoe

Chief Executive Officer