PERFORMANCE OVERVIEW

The Group's Food & Beverage (F&B) division, including Glass Packaging, delivered strong positive results for the year, recording an increase of 31% in revenue and 11% in PBIT, to reach $2.5 billion and $250 million respectively.

The robust results were achieved by the Group's concerted efforts in executing on its two key strategies, namely investing in brands and product innovations, and continuing to deepen and broaden our overseas presence.

F&B CORPORATE BRANDING

Cementing F&N as a Household Name in Asia

In June 2007, the F&B corporate brand underwent re-positioning to forge a strong and readily recognisable identity in line with lifestyle needs of consumers today. Emblazoned with the powerful banner "Pure Enjoyment Pure Goodness", the new F&B brand serves to unify all the individual category brands in the non-beer category under one compelling identity and function as the platform to springboard the company's regional expansion.

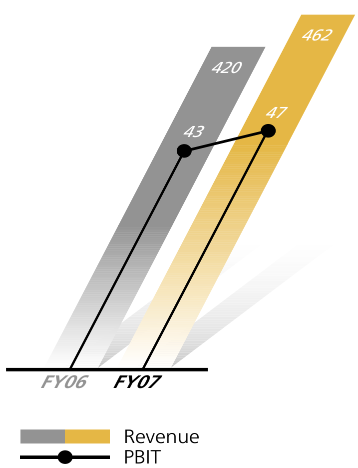
The brand launch was expressed through an aggressive advertising campaign spanning television, radio, online, print media and outdoor media, heightening awareness and reinforcing F&N's proposition of healthy enjoyment. Also in line with the brand's promise, the Group sponsored the National Healthy Lifestyle Campaign 2007 organised by the Health Promotion Board in Singapore, and rolled out contests and exhibitions to reach consumers.

Apart from Singapore, the F&B corporate brand was also introduced in Thailand and Vietnam, and will be officially launched in Malaysia in early 2008. Moving forward, we will shape our marketing activities and product portfolio around the core theme of our corporate F&B brand and continue to drive growth through product innovations, regionalisation, strategic acquisitions and alliances with strategic partners.

Pure Enjoyment. Pure Goodness

Soft Drinks

Strong optimism in the regional economy boosted consumer confidence, causing the soft drinks division to bounce back from its slowdown in the previous financial year to register a record revenue of $462 million in FY2007, an increase of 10% over the previous year. PBIT rose by 7% to $47 million.



Soft Drinks:
Revenue and PBIT
($ million)

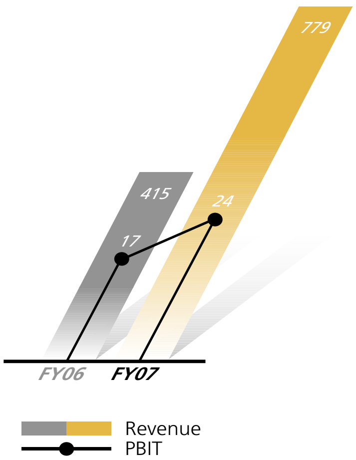
Marketing efforts were focused on fortifying core strengths in order to drive incremental sales volume. Driven by increased shelf space and successful marketing activities, in particular, during the festive periods such as Chinese New Year and Hari Raya, the Group gained market shares across most beverage categories. Notably, we solidified our leadership positions in the carbonated soft drinks and isotonic segments in Malaysia, with market shares of approximately 67% and 93%, respectively.

An intensive campaign was also put in place to position the division as a cost-efficient producer with excellent sales and distribution networks, as well as high responsiveness in the supply chain.

Rising key packaging material costs, especially aluminium and resin, continued to put pressure on margins. To minimise the impact on profitability, a price increase for the cans category was instituted. Due to the strength of our brands, the price increase had no adverse effect on overall sales.

The division is also a major bottled water producer in Malaysia with two separate mineral water sources in both Peninsular and East Malaysia. Following the acquisition of Borneo Springs Sdn Bhd, we further entrenched our position in the water segment by commencing operations at our water plant in Bentong, as well as establishing a new mineral water well at the Kuching plant.

Looking ahead, innovation and brand building strategies will continue to facilitate strong top-line growth. Despite the expected increase in raw material costs, compelling brands and enhanced efficiencies will support the growth momentum in our Soft Drinks business.



Dairies:
Revenue and PBIT
($ million)

Dairies

The dairies division recorded a sterling performance in FY2007, retaining its leading market positions in both Singapore and Malaysia, particularly in the milk and juice categories. Despite the upward spiral in milk costs worldwide, operating profits rose by almost 40% to $24 million.

In a bold move to corner the milk market in the region, F&N inked a RM285 million deal to acquire Nestle's liquid canned milk business in Malaysia, Indochina, Singapore and Brunei in February 2007. Under this transaction, F&N acquired relevant Nestle production facilities and equipment in Thailand, as well as the Tea Pot sweetened condensed milk brand. The acquisition of Tea Pot and licensing of Nestle's other canned milk products propelled the Malaysia and Thailand dairies division's sales revenue to leap almost two-fold to surpass the RM2 billion mark for the first time, making F&N the No. 1 canned milk player in ASEAN.

The move is in line with the Group's overall strategy to make Asia the cornerstone of our business and the launchpad into new markets. The acquisition provided synergies and economies of scale, and consolidated the fragmented canned milk market. The setting up of F&N Dairies Thailand following the acquisition of the two Nestle Thailand plants also opened up access to emerging markets in Indochina. In its first eight months of operations, F&N Dairies Thailand registered a revenue of RM635 million and operating profit of RM13.7 million – a commendable achievement, taking into account the high cost of raw materials and fuel, and start-up costs.

Back home, Magnolia celebrated its 70th anniversary with a marketing campaign that reinforced its rich heritage and nurturing attributes. Magnolia Fresh Milk and Magnolia UHT Milk remained the leading brands in the categories of fresh pasteurised milk and UHT milk respectively. Magnolia Smoo is also the leader in the kids' UHT milk segment.

In a sector where consumers are constantly on the lookout for something different and novel, innovation is the key to growing the Group's F&B business. To appeal to the health-conscious consumers of today, F&N has embarked on many new offerings that promise to be healthy, nutritious and convenient. The first of this series was aLIVE by Magnolia Yoghurt, specially formulated with tasty chunks of fruit in low fat yoghurt, aimed at delivering a specific benefit.

In May 2007, Fruit Tree Fresh introduced the No Sugar Added Cranberry Pomegranate Apple as part of its popular No Sugar Added juice drink range. This exciting new variant heralded the European berry craze which is quickly winning over Asia. The successful launch of the drink gave a substantial boost to overall sales of Fruit Tree Fresh.

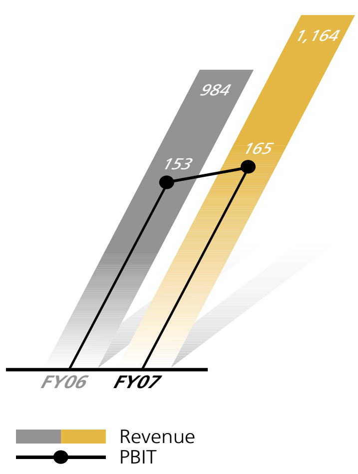
Nutritea, the first pasteurised tea in Singapore, had a successful first year. Brewed from natural ingredients and contains no preservatives, this year, two new drinks were successfully launched – Water Chestnut & Sugar Cane and Jasmine Green Tea.

NutriSoy maintained its market leadership as the No.1 brand in the fresh soya beverage category in Singapore, claiming more than half the market share. A new Red Bean variant was introduced during the year to add excitement and variety to the healthy soya drink brand.

In the coming year, our expansion efforts will continue to accelerate and we will leverage our Halal certification to penetrate the Middle East markets, including Syria, Iran and Yemen. In addition, the Group will accelerate efforts to yield synergistic benefits from the integration of Nestle's liquid canned milk business. The consolidation of the canned milk category looks set to bring economies of scale to the Group's dairy manufacturing operations during a period of escalating packaging and raw materials costs such as milk powder and aluminium.

BREWERIES

A Trailblazer in the Beer Trade



Breweries: Revenue and PBIT ($ million)

The majority of F&N's brewery business operates through Asia Pacific Breweries (APB), a joint venture with Heineken NV that dates back 76 years. The F&N Group operates 33 breweries in 12 countries spanning the Asia Pacific. With a portfolio of over 40 beer brands and brand variants including Tiger Beer, Heineken, Anchor and ABC Stout, APB is one of the key players in the beer industry.

For eight consecutive years, the Group's beer sales volume has grown at double-digit rates. Consequently, revenue rose by 18% to $1.2 billion. PBIT climbed 8% to $165 million, despite non-recurring items, translation differences, gestation losses and reinvestment credit. Organically, PBIT rose by 22% to $176 million.

F&N's strategy for our breweries division, much like the rest of our F&B operations, is to cultivate our brands and increase our market share through value-creating acquisitions and organic growth in key, fast-growing countries.

Making Waves in Asia Pacific

The Group continued to be a keen player in the Singapore beer market. During the year, beer volumes (including export) were up 11%, helped by higher Tiger sales, as strategic marketing activities such as the launch of the credentials campaign and Super Cold Tiger effectively strengthened Tiger's position as a truly world-acclaimed beer. In FY2007, several new beers including ABC Ginseng and Baron's Extra Strong Brew were introduced.

Despite a weak beer market, volumes in Malaysia grew marginally, at 3%. PBIT, however, fell 8% due to higher marketing expenses and overheads. Such marketing investments are integral parts of the business to forge consumer relationships and stimulate brand demand.

Thailand continued to face strict government rules curtailing consumption and advertising of alcohol products. PBIT improved, however, by 33% due to lower marketing investments. To sustain a good rapport with consumers, innovative consumer programmes have been developed to boost brand awareness and engage drinkers.

Continued favourable beer market conditions in Cambodia and Vietnam, coupled with robust distribution and portfolio optimisation fuelled the growth of our beers in Indochina. Once again, Indochina retained its position as the largest profit contributor, accounting for close to 40% of the brewery PBIT. Excluding a one-off royalty adjustment which boosted FY2006's profits, reinvestment credit that was added to FY2007's profits, gestation losses and translation difference, PBIT grew organically by 23%.

In China, the largest beer market in the world, Heineken APB China (HAPBC) reported strong double-digit volume growth of 14%, boosted by effective marketing spend and an enhanced distribution network. Coupled with the synergies realised from the integration of operational activities within the Group, PBIT stood at $3 million. HAPBC operates 14 breweries in Chengdu, Guangdong, Hainan, Jiangsu, Shanghai, Tianjin and Xi'an through its subsidiaries and joint venture companies. Kingway Brewery is in the process of building an additional brewery in Foshan, Guangdong.

APB in New Zealand faced another year of intense competition. Despite continued pressure, APB managed to increase its volume by 11%, with Tiger growing as a choice brand there. APB also saw commendable results from Papua New Guinea, sales volumes and PBIT grew at a record of 16% each in FY2007.

Expanding our International Reach

Beyond Asia, Tiger further extended its reach in the USA and Canada via Anheuser-Busch and Molson respectively. During the year, Tiger sales volumes in North America and Canada grew an impressive 50%. In the UK, Tiger remained the leading Asian imported beer brand and booked an 11% volume gain. Today, Tiger is available in 60 countries spanning the globe.

Venturing into New Markets

APB's expansion into the region continued full throttle with its second phase of regionalisation. New ventures in India, Laos, Mongolia and Sri Lanka laid the ground for a new growth trajectory and further bolstered the Group's presence in the Asia Pacific.

Following the establishment of the 55%-owned MCS-Asia Pacific Brewery, APB's maiden brewery in Ulaanbaatar, Mongolia has become the eighth country to brew Tiger. Although Mongolian-brewed Tiger was only recently introduced, the brand has enjoyed the reputation as a premium import brand for over 15 years. Today, the brand has built a substantial presence in some 1,500 bars, pubs, restaurants and retail outlets amongst others in Ulaanbaatar.

As the Group moves into its third phase of regionalisation, we will carry on our momentum to forge ahead in the Asia Pacific in the year to come. By the 1st Quarter of 2008, the F&N Group will have 36 operating breweries in 13 countries.

GLASS PACKAGING

Delivering Sustainable Returns

The glass containers division turned in outstanding results for FY2007, achieving double-digit improvements in key performance metrics and an operating profit of $15 million – the highest since its inception. It recorded total revenue of $123 million, a 5% increase from the previous year.

The division's exemplary performance can be attributed to improved operating, sales and marketing performance at three of the four glass container operating companies. The three operating companies exceeded their performance targets in production outputs, costs control as well as in sales and marketing.

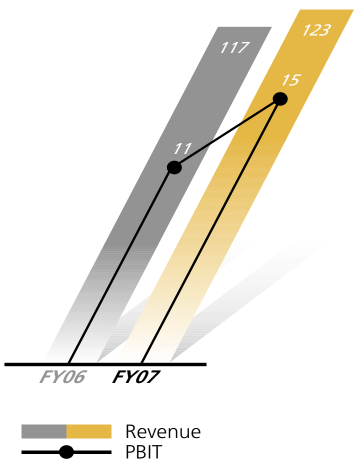
The fifth plant, a US$43 million state-of-the-art glass plant in Thailand, commenced operations in October 2007 and is a 70%-owned joint venture with Thai Asia Pacific Brewery Co. Ltd. The plant's order book for its first seven months was fully committed and studies will be conducted to explore the possibility of building a second furnace to expand the plant's production capacity.

Vietnam continued to perform creditably and recorded its highest profit level since its establishment in 1993.

In Malaysia, dedicated efforts to improve efficiency, product margin and costs containment contributed to the division's stronger overall performance. Rebuilding of the M1 furnace in the Malaya Glass Products plant in Tampoi is underway and is expected to be operational in the 2nd Quarter of 2008.

The plant in Sichuan, China registered strong demand for its bottles. Its advanced technology and quality manufacturing processes won a string of orders from higher margin multinational customers of internationally recognised brands, including Anheuser-Busch and Coca Cola. Now operating at full capacity, the plant has more than doubled its profit level over the previous year. Construction work has begun for a new 250-tonne a day furnace and manufacturing facility. With favourable market conditions in China, costs leveraging and selling price improvements, its future prospects and profitability look bright.

The outlook for the coming year is positive. The division aims to continue with its strategy of building a sustainable and profitable regional business by pursuing product innovation, quality and cost competitiveness. With further improvements in operating efficiency, production output and margin sales, the division is confident of achieving better profitability in the year to come.



Glass Packaging:
Revenue and PBIT
($ million)