

FRASER AND NEAVE, LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No.: 189800001R)

PROPOSED CAPITAL REDUCTION IN CONJUNCTION WITH THE PROPOSED DISPOSAL OF INTERESTS IN ASIA PACIFIC BREWERIES LIMITED (“APBL”) AND ASIA PACIFIC INVESTMENT PTE LTD (“APIPL”)

1. INTRODUCTION

- 1.1 **Proposed Transaction.** The board of directors (the “**Board**”) of Fraser and Neave, Limited (the “**Company**”) refers to the announcement of the Company on 18 August 2012 (the “**Announcement**”) in relation to the Company’s entry into the Agreements with Heineken International B.V. for the proposed sale of the Company’s direct and indirect interests in APBL and the Company’s interest in certain non-APBL assets held by APIPL (collectively, the “**Proposed Transaction**”). As stated in the Announcement, the Company was considering possible options to distribute part of the cash proceeds from the Proposed Transaction to the shareholders of the Company (the “**Shareholders**”).

All capitalised terms used and not defined herein shall have the same meanings given to them in the Announcement.

- 1.2 **Use of Proceeds.** Further to the Announcement, the Board wishes to announce that, in the event that the Proposed Transaction is approved by Shareholders at the EGM and completed in accordance with the terms of the Agreements, then subject to the conditions as set out in paragraph 4 below, the Company intends to distribute approximately S\$4.0 billion from the cash proceeds of the Proposed Transaction to Shareholders. This represents approximately 84 per cent. of the gain on disposal of S\$4.8 billion¹ (after taking into account transaction costs) for the F&N Group, comprising the Company and its subsidiaries (the “**F&N Group**”). The distribution to Shareholders will take place by way of a proposed capital reduction (“**Capital Reduction**”), to be carried out by the Company pursuant to Section 78G of the Companies Act, Chapter 50 of Singapore (the “**Act**”). The remainder of the proceeds, amounting to approximately S\$1.6 billion, will be used to repay existing debt facilities and strengthen the balance sheet of the F&N Group.

- 1.3 **Proposed Capital Reduction.** Pursuant to the Capital Reduction, the Company will, subject to the Rounding Up (as defined below) cancel one Share for every three Shares (the “**Reduction Ratio**”) held by or on behalf of the Shareholders as at the date to be announced on which the Transfer Books and the Register of Members of the Company will be closed in order to determine the entitlements of Shareholders to the capital distribution pursuant to the Capital Reduction (“**Books Closure Date**”). In exchange for the cancellation of the Shares pursuant to the Capital Reduction, the Company will make a cash distribution of S\$8.50 for each Share held by or on behalf of the Shareholders as at the Books Closure Date which is cancelled pursuant to the Capital Reduction. The price of S\$8.50 for each Share so cancelled is based on the volume weighted average price of the Shares traded on the SGX-ST for the five full days on which the Shares were trading on SGX-ST from (and including) 16 August 2012 to (and including) 24 August 2012, being the date of this announcement, rounded to the nearest ten cents.

¹ Assuming the Proposed Transaction was completed on 30 June 2012.

2. THE CAPITAL REDUCTION

2.1 **Proposed Capital Reduction.** The Capital Reduction exercise will involve the following:

2.1.1 *Capitalisation of Revenue Reserves*

An amount of approximately S\$3,541 million forming part of the revenue reserves of the Company will be applied in paying up for the allotment and issue of such number of new Shares in the issued share capital of the Company in the proportion of one additional Share (the “**Additional Shares**”) for each Share held by a Shareholder as at the Books Closure Date. The Additional Shares are issued solely for the purpose of capitalising the reserves and will forthwith be cancelled in their entirety upon being issued.

2.1.2 *Cancellation of Shares based on Reduction Ratio*

Pursuant to the Capital Reduction, the Company will, subject to the Rounding Up, cancel one Share for every three Shares held by or on behalf of each of the Shareholders as at the Books Closure Date (excluding the Additional Shares). Any fraction of a Share to be cancelled from the shareholding of each Shareholder arising from the application of the Reduction Ratio shall be disregarded for the purposes of the Capital Reduction.

2.1.3 *Rounding Up*

The Capital Reduction is proposed to be effected such that the resultant number of Shares which would have been held by or on behalf of each Shareholder following the proposed cancellation of Shares based on the Reduction Ratio will be rounded up (where applicable) to the nearest multiple of ten Shares (the “**Rounding Up**”). Consequently, the number of Shares proposed to be cancelled from such Shareholder may be reduced accordingly.

However, in the event that the resultant number of Shares arising from the Rounding Up:

- (i) is greater than that held by or on behalf of such Shareholder as at the Books Closure Date, no Rounding Up will be applied and the number of Shares proposed to be cancelled from such Shareholder will be the number of Shares cancelled based solely on the Reduction Ratio, disregarding fractions; or
- (ii) is equal to that held by or on behalf of such Shareholder as at the Books Closure Date, no Shares shall be cancelled from such Shareholder.

The Rounding Up is intended to enable the Shareholders to own Shares in multiples of 10 Shares, which may facilitate the trading of the said Shares on the SGX-ST after the Capital Reduction.

2.1.4 *Capital Distribution*

In exchange for the cancellation of Shares pursuant to the Capital Reduction, the Company will make a cash distribution of S\$8.50 for each Share held by or on behalf of the Shareholders as at the Books Closure Date which is cancelled pursuant to the Capital Reduction. The price of S\$8.50 for each Share so cancelled is based on the volume weighted average price of the Shares traded on the SGX-ST for the five full days on which the Shares were trading on the SGX-ST from (and including) 16 August 2012 to (and including) 24 August 2012, being the date of this announcement, rounded to the nearest ten cents.

There will be no cash distribution to the Shareholders arising from the issuance and cancellation of the Additional Shares as described in paragraph 2.1.1 above which is being undertaken for the purpose of capitalising the revenue reserves of the Company.

2.1.5 Effects of Capital Reduction

Pursuant to the Capital Reduction:

- (i) an aggregate amount of approximately S\$4,030 million will be returned to the Shareholders pursuant to the Capital Reduction, of which:
 - (a) approximately S\$3,541 million will originate from the reduction of the portion of the issued share capital of the Company created from the capitalisation of the revenue reserves of the Company as contemplated in paragraph 2.1.1 above; and
 - (b) approximately S\$489 million will originate from the reduction of the existing issued share capital of the Company; and
- (ii) approximately 474.065 million issued Shares (excluding the Additional Shares which are cancelled forthwith upon issuance) will be cancelled under the Capital Reduction.

The actual number of Shares to be cancelled pursuant to the Capital Reduction may be adjusted, based on the issued share capital of the Company as at the Books Closure Date and the application of the Rounding Up.

The end result after completion of the Capital Reduction would be an aggregate capital distribution of approximately S\$4,030 million by the Company and the distribution to the Shareholders of an amount of S\$8.50 per Share in cash for every Share held by a Shareholder as at the Books Closure Date which has been cancelled pursuant to the Capital Reduction. For the avoidance of doubt, no distribution is paid for the cancellation of the Additional Shares.

The above does not take into account the issue of approximately 20 million new Shares, assuming the exercise of all outstanding Share Options and the vesting of outstanding Share Awards and assuming that new Shares will be issued upon the vesting of all such Share Awards and the exercise of all such Share Options on or prior to the Books Closure Date, in which event the number of issued Shares as at the Books Closure Date will increase, resulting in a consequent increase in the corresponding number of Shares to be cancelled pursuant to the Capital Reduction. In such an event, the distribution to be paid by the Company pursuant to the increased number of cancelled Shares will be increased by an aggregate amount of up to S\$56 million. Accordingly, assuming that all outstanding Share Options are exercised and all Share Awards are vested as at the Books Closure Date, an aggregate amount of up to S\$4,086 million will be returned to the Shareholders, and up to 480.695 million Shares will be cancelled.

2.2 **Share Options and Share Awards.** The Company has granted share options to subscribe for new Shares (“**Share Options**”) under the F&N Executive Share Option Scheme which was approved and adopted by the Company on 30 September 1999 and expired on 30 September 2009 (“**F&N ESOS**”), which are exercisable into new Shares. The Company has also granted awards of Shares (“**Share Awards**”) under the F&N Performance Share Plan and the F&N Restricted Share Plan, which were approved and adopted by the Company on 22 January 2009 (“**F&N Share Plans**”), pursuant to which the Company may, subject to performance targets and/or conditions being fulfilled, deliver Shares, free of payment, to the holders of such Share Awards, either in the form of new Shares or existing Shares, upon the vesting of the Share Awards. Accordingly, the actual number of Shares to be cancelled pursuant to the Capital Reduction may be adjusted, based on the issued share capital of the Company as at the Books Closure Date, taking into account the issue of new Shares arising from the exercise of any Share Options and any vesting of Share Awards, on or before the Books Closure Date, as described under paragraph 2.1.5 above.

2.3 **Illustration.** The following illustrates the position of a Shareholder who owns 1,000 Shares as at the Books Closure Date:

		Shareholder with 1,000 Shares
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Position pre-Capital Reduction		
(1)	Shares currently held	1,000
 Position post-Capital Reduction		
(2)	Shares proposed for cancellation based on the Reduction Ratio alone	333
(3)	Resultant number of Shares after proposed cancellation based on the Reduction Ratio alone ((1) – (2))	667
(4)	Rounding-Up of Shares held to the nearest multiple of 10	670
(5)	Shares to be cancelled pursuant to the Capital Reduction	330
	((1) – (4))	
(6)	Cash proceeds received by a Shareholder who owns 1,000 Shares as at the Books Closure Date	S\$2,805

Based on the illustration above, a Shareholder who owns 1,000 Shares as at the Books Closure Date will receive a cash distribution of S\$2,805 while maintaining approximately the same proportionate shareholding in the Company after the Capital Reduction is effected.

3. RATIONALE

Having reviewed the capital structure and leverage position of the Company, the Board is of the view that the Capital Reduction will allow the Company and the F&N Group to achieve a more efficient capital structure post-disposal of the Company's interests in APBL and APIPL, while enabling the Company to distribute substantially the gain on the Proposed Transaction to Shareholders.

The repayment of debt with a proportion of the proceeds will strengthen the balance sheet of the Group while maintaining a net debt level, after the Proposed Transaction, which will enable the Group to focus on existing operations whilst maintaining sufficient flexibility to position itself to take advantage of business opportunities in the food and beverage and real estate sectors in the region, which may arise in the near or medium term.

4. CONDITIONS

The Capital Reduction is subject to, *inter alia*:

- 4.1.1 the approval of the Shareholders by way of the special resolution for the Capital Reduction at an extraordinary general meeting to be convened (the “**EGM**”);
- 4.1.2 completion of the Proposed Transaction taking place in accordance with the terms of the Agreements and the Company receiving the proceeds from the Proposed Transaction;
- 4.1.3 the approval of the High Court of Singapore for the Capital Reduction; and
- 4.1.4 all other relevant approvals and consents being obtained.

A copy of the Order of Court approving the Capital Reduction and other documents as prescribed under the Act will subsequently be lodged with the Accounting and Corporate Regulatory Authority of Singapore (“**ACRA**”). On the lodgement of the copy of the Order of Court confirming the Capital Reduction and other documents as prescribed under the Act with ACRA, the Capital Reduction shall take effect, and the capital distribution will be made thereafter.

5. FINANCIAL EFFECTS

The pro forma financial effects of the Proposed Transaction and the Capital Reduction are set out in the Appendix to this announcement. The pro forma financial effects are purely for illustration purposes only and do not reflect the actual financial position of the F&N Group after completion of the Proposed Transaction and the Capital Reduction.

6. FURTHER INFORMATION

- 6.1 **EGM.** The Company intends to propose the special resolution to approve the Capital Reduction at the EGM to be held to approve the Proposed Transaction. Further details on the Proposed Transaction and the Capital Reduction will be set out in the Company's circular to Shareholders to be despatched in due course.

In the meantime, the Company advises that Shareholders exercise caution when dealing in the Shares and to refrain from taking any action in respect of their Shares which may be prejudicial to their interests. Shareholders who are in any doubt as to the action that they should take should consult their stockbroker, bank manager, accountant, solicitor or other professional advisers immediately.

- 6.2 **Interests of Directors and Controlling Shareholders.** None of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Capital Reduction.

7. DIRECTORS' RESPONSIBILITY STATEMENT

The directors of the Company (including any who may have delegated detailed supervision of this announcement) have taken all reasonable care to ensure that the facts stated and all opinions expressed in this announcement are fair and accurate and that no material facts have been omitted from this announcement, and the directors of the Company jointly and severally accept full responsibility accordingly.

Where any information has been extracted or reproduced from published or otherwise publicly available sources, the sole responsibility of the directors of the Company has been to ensure through reasonable enquiries that such information is accurately extracted from such sources or, as the case may be, reflected or reproduced in this announcement.

BY ORDER OF THE BOARD

Anthony Cheong Fook Seng

Company Secretary

24 August 2012

Appendix

FINANCIAL EFFECTS

1. **Assumptions.** The pro forma financial effects of the Proposed Transaction and the Capital Reduction on the net asset value (“NAV”) per share, earnings per share (“EPS”) and the share capital of the F&N Group have been prepared based on the unaudited restated consolidated financial statements of the F&N Group for the financial period ended 30 September 2011 (the “FY2011 Statements”)² and the unaudited consolidated financial statements of the F&N Group for the nine months ended 30 June 2012 (“9M 2012 Statements”). The pro forma financial effects are purely for illustration purposes only and do not reflect the actual financial position of the F&N Group after completion of the Proposed Transaction and the Capital Reduction.

For the purposes of illustrating the financial effects of the Proposed Transaction and the Capital Reduction, the financial effects for the financial period ended 30 September 2011 (“FY2011”) and the nine months ended 30 June 2012 (“9M 2012”) are based on, *inter alia*, the following assumptions:

- (a) the NAV and the NAV per Share of the F&N Group are computed assuming that the Proposed Transaction and the Capital Reduction were completed on 30 September 2011 for the purpose of the financial effects for FY2011 and 30 June 2012 for the purpose of the financial effects for 9M 2012;
- (b) profit after tax and non-controlling interest are computed assuming that the Proposed Transaction and Capital Reduction were completed on 1 October 2010 for the purpose of the financial effects for FY2011 and 1 October 2011 for the purpose of the financial effects for 9M 2012;
- (c) 1,411,514,577 Shares in issue as at 30 September 2011 prior to the completion of the Capital Reduction and 941,009,718 Shares in issue as at 30 September 2011 after cancellation of 470,504,859 Shares as a result of the Capital Reduction;
- (d) 1,422,194,023⁵ Shares in issue as at 30 June 2012 prior to the completion of the Capital Reduction and 948,129,349 Shares in issue as at 30 June 2012 after cancellation of 474,064,674 Shares as a result of the Capital Reduction; and
- (e) the pro forma financial effects showing the position of the F&N Group after the Completion of the Proposed Transaction are prepared on the assumption that the Capital Reduction does not take place.

² The F&N Group has adopted INT FRS 115 Agreements for the Construction of Real Estate from 1 October 2011, resulting in a restatement of consolidated financial results of the F&N Group for FY2011.

2. **NAV.** The pro forma financial effects of the Proposed Transaction and the Capital Reduction on the NAV of the F&N Group for FY2011 and 9M 2012 are as follows:

(i) FY2011

	Before the Proposed Transaction and Capital Reduction	Pro-forma	
		After Completion of the Proposed Transaction	After Completion of the Proposed Transaction and Capital Reduction
NAV (S\$ million)	6,843	11,700	7,700
NAV per Share (S\$)	4.85	8.29	8.18

(ii) 9M 2012

	Before the Proposed Transaction and Capital Reduction	Pro-forma	
		After Completion of the Proposed Transaction	After Completion of the Proposed Transaction and Capital Reduction
NAV (S\$ million)	7,029	11,906	7,876
NAV per Share (S\$)	4.94	8.37	8.31

3. **Earnings.** The pro forma financial effects of the Proposed Transaction and the Capital Reduction on the earnings of the F&N Group for FY2011 and 9M 2012 are as follows:

(i) FY2011

	Before the Proposed Transaction and Capital Reduction	Pro-forma	
		After Completion of the Proposed Transaction	After Completion of the Proposed Transaction and Capital Reduction ³
Profit after Tax and Non-Controlling Interest (before fair value adjustment and exceptional items) (S\$ million)	643	542	560
Profit after Tax and Non-Controlling Interest (after fair value adjustment and exceptional items) (S\$ million)	898	5,612 ⁴	5,630
Earnings per share (before fair value adjustment and exceptional items) (cents)	45.7	38.5	59.5
Earnings per share (after fair value adjustment and exceptional items) (cents)	63.8	398.7 ⁴	598.3

³ These figures have assumed that approximately S\$1.6 billion of the proceeds from the Proposed Transaction have been utilized to repay debt facilities of the F&N Group as contemplated in paragraph 1.2.

⁴ Based on carrying value of investment as at 30 September 2010.

(ii) 9M 2012

	Before the Proposed Transaction and Capital Reduction	Pro-forma	
		After Completion of the Proposed Transaction	After Completion of the Proposed Transaction and Capital Reduction ³
Profit after Tax and Non-Controlling Interest (before fair value adjustment and exceptional items) (S\$ million)	391	274	287
Profit after Tax and Non-Controlling Interest (after fair value adjustment and exceptional items) (S\$ million)	403	5,080	5,093
Earnings per share (before fair value adjustment and exceptional items) (cents)	27.5	19.3	30.2
Earnings per share (after fair value adjustment and exceptional items) (cents)	28.4	358.2	537.1

4. **Share Capital.** The Proposed Transaction will not, in and of itself, have any impact on the issued and paid up share capital of the Company. The pro forma financial effects of the Capital Reduction on the share capital of the Company for FY2011 and 9M 2012 are as follows:

(i) FY2011

	Shares (million)	Value (S\$ million)
Share capital as at 30 September 2011	1,411.515	1,417
Additional Shares issued pursuant to capitalisation of revenue reserves	1,411.515	3,527
Cancellation of Additional Shares	(1,411.515)	-
Shares to be cancelled pursuant to Capital Reduction (excluding Additional Shares)	(470.505)	(3,999)
Adjusted issued share capital after Capital Reduction	941.010	945

(ii) 9M 2012

	Shares (million)	Value (S\$ million)
Share capital as at 30 June 2012 ⁵	1,422.194	1,466
Additional Shares issued pursuant to capitalisation of revenue reserves	1,422.194	3,541
Cancellation of Additional Shares	(1,422.194)	-
Shares to be cancelled pursuant to Capital Reduction (excluding Additional Shares)	(474.065)	(4,030)
Adjusted issued share capital after Capital Reduction	948.129	977

5. **Leverage Ratios.** The proforma financial effects of the Capital Reduction on the leverage ratios of the F&N Group as at FY2011 and 9M 2012 are as follows:

(i) FY2011

	As at 30 September 2011	Pro forma after Capital Reduction ³
Total net borrowings (S\$ million)	2,364	825
Net Debt/Total Equity (%)	30.8	10.0

(ii) 9M 2012

	As at 30 June 2012	Pro forma after Capital Reduction ³
Total net borrowings (S\$ million)	2,534	1,022
Net Debt/Total Equity (%)	32.2	12.1

⁵ Excluding 4,100 Shares in treasury.