

CEO Business Review

New Markets

Indonesia • Myanmar
Thailand • Vietnam

NEW
IN MYANMAR

- 100PLUS ACTIVE
- F&N SEASONS Ready-to-Drink Tea
- GOLD COIN Condensed Milk

NEW
IN VIETNAM

- F&N Sweetened Condensed Milk in Squeeze Tube

NEW MARKETS

New Markets FY2019 performance across geographies were strong. Despite accelerating competition, ongoing price discounting and currency risks, each market recorded both top- and bottom-line improvements. Notwithstanding ongoing challenges, Southeast Asia (“SEA”) region remains the focal point of F&N’s march toward becoming a leading F&B player in ASEAN. Since 2015 when the Group outlined its Vision 2020 business plan, F&N has identified Indonesia, Myanmar, Thailand and Vietnam as its key new markets. It has also identified core brands to capitalise on clearly defined market opportunities and establish presence in these new markets. South East Asia’s population of over 640m, with an emerging middle-class, presents a sizeable potential consumer market to F&N.

Our strategy in New Markets is to operate across categories, focusing on the highest growth categories and consumer opportunities most relevant to our core brands. We will combine organic growth with selective acquisitions that complement our strategy.

(A) INDONESIA

Indonesia is the most populous country in SEA with over 270m people. Its increasing urbanisation, rising income levels, favourable demographic patterns and changing lifestyle trends offers very attractive growth opportunities for F&N.

FY2019 PERFORMANCE

F&N’s subsidiary Yoke Foods Industries Sdn Bhd (“YFI”) continued to boost the Group’s presence in Indonesia. A streamlined structure has enabled us to concentrate on building our distribution network and growing our presence. Today, our portfolio of products – 100PLUS, F&N Sparkling Drinks, UNIFRESH, DAYDAY Asian soft drinks – is now available in 20 cities such as Jakarta, Medan, Palembang, Padang, Pekanbaru, Jambi, Balikpapan, Samarinda, Batam and Riau islands. Distribution is handled through our direct local network, giving the Group direct access to the vast Indonesian market and growing our market presence.

This year, the Group delivered outstanding growth numbers in Indonesia, due largely to volume growth in our core brand, 100PLUS, where volume almost doubled from a year ago. The strong growth was mainly attributed to our unrelentless efforts in driving product availability in key cities, while collaborating closely with distributors and wholesalers. Favourable price mix, higher selling prices,

lower COGs and tighter control on operating expense all contributed to improved profitability from Indonesia this year.

Indonesia will remain a key new market and a core component in our growth strategy. We are determined to pursue every opportunity to grow this important market. This will entail expanding our product range, widening our reach through expansion into other cities/regions/channels, forging partnerships and driving consumption through localised consumer engagement activities. We will continuously review our distribution structure to ensure our ability to supply products efficiently and reliably alongside the rapid development of the different trade channels in the region. Leveraging our regional business and brands, we will continue to look for opportunities to drive scale advantage.

(B) MYANMAR

Despite the slowing global economy and the escalating US-China trade war, Myanmar’s economy is expected to witness a slight pick-up, as the Burmese government remains committed to creating adequate conditions to attract and facilitate foreign investment to spur economic growth. As one of the fastest growing economies in Southeast Asia, Myanmar’s real GDP rose 6.8% in FY17/18 and is projected to grow 7.0%¹ in the next three years. Increasing discretionary expenditure coupled with the country’s growing middle-class population will present tremendous growth opportunities for the Group.

FY2019 PERFORMANCE

During the year, F&N continued to strengthen its relationship with Shwe Kan Kaw (“SKK”) Group, the fastest-growing tea shop operator in Yangon, Myanmar. From 49 teashops a year ago, SKK Group has grown to 62 outlets, all exclusively using TEAPOT condensed and evaporated milk. The successful partnership gave rise to a significant increase in TEAPOT’s on-premise presence, which led to its sales growth this year.

100PLUS has also grown from strength to strength, to become one of the leading isotonic drinks in Myanmar. This year, the Group expanded its isotonic offerings to include 100PLUS ACTIVE Tasty Lemon, a non-carbonated variant of 100PLUS. Specially formulated to suit local tastes, the rollout of this refreshing isotonic beverage in March was supported by a 360-degree campaign that included television commercials, outdoor and online advertisements, as well as roadshows, various point-of-sales activations and sampling activities.

Note:

1 Source: World Bank

20

CITIES

Our portfolio of products is now available in 20 cities in Indonesia

100PLUS

100PLUS remains one of the leading isotonic drinks in Myanmar

CEO Business Review

New Markets Indonesia • Myanmar Thailand • Vietnam

In addition to rolling out new flavour, we also introduced a new pack size for the current flavours – Berry, Orange and Original – in 380ml PET replacing the 500ml PET bottle. Designed for consumers who are always on the go, this convenient pack size was so well received that it generated strong top line growth for *100PLUS*.

Throughout the year, *100PLUS* reinforced its image as the enabler of active lifestyles by supporting major sporting events and national sports bodies, such as the AFF SUZUKI CUP, *100PLUS* ACTIVE RUN and YOMA YANGON INTERNATIONAL MARATHON. This year, *100PLUS* and Sagaing United Football Club (“**SUFC**”) signed a sponsorship agreement to cement *100PLUS* as the Official Hydration Sponsor of SUFC from 1 June 2019 to 31 December 2020. As part of the sponsorship, *100PLUS* receives full branding and selling rights of Myanmar Football Federation and Myanmar National League events. *100PLUS*'s logo will also be on the front of the player's jerseys. The sponsorship also gives *100PLUS* the right to use the National Team players' image on product packaging, promotional materials and various marketing activities.

(C) THAILAND (SOFT DRINK)

Thailand's fast-moving-consumer-group (“**FMCG**”) industry grew 6% this year, compared to a shrinkage in 2018. Consumption rebounded across all macro-categories due to improved consumer sentiment, more celebrations and festivities which induced spending, as well as public programs such as welfare cards. Beverages, in particular, recorded double-digit growth.

While the outlook of Thailand remains positive, consumers continue to show caution with their spending due to uncertainties of the economy and rising cost of living. Public policies, growth in the domestic economy and impact from global economies will continue to play a role in the future rate of recovery of the FMCG industry.

FY2019 PERFORMANCE

F&N operates in the Thai soft drink market through its licensee, Thai Drinks, a subsidiary of Thai Beverage Public Company Limited, for the manufacture, marketing and distribution of *100PLUS* in Thailand.

100PLUS continued to strengthen its unique positioning as the healthier carbonated soft drink in Thailand with a new communication campaign, celebrity endorsements and event sponsorships. For the third consecutive year, *100PLUS* teamed up with influential Thai celebrity, Toon Bodyslam, to drive brand reach and awareness. The new communication campaign for *100PLUS* was supported by television commercials that featured the up-and-coming teen superstar, Lee Thanat, who exemplifies young Thai consumers who adopt active and healthy lifestyles.

Throughout the year, *100PLUS* sponsored numerous sports-related events such as the CROSS COUNTRY CHARITY RUN (KAO KON LA KAO) BY TOON BODYSLAM, KHAO YAI MARATHON RUN, 12TH AUGUST HALF MARATHON and AFF SUZUKI CUP 2018. *100PLUS* was also the exclusive isotonic drink and sponsor of HAPPY AND HEALTHY BIKE LANE, a world class outdoor cycling track. It also supported several sports sponsorships via the THAIBEV THAI TALENT projects in sports such as tennis, badminton, basketball, and cycling.

Since the launch of *100PLUS* in 370ml last year, *100PLUS* managed to capture and recruit new consumers. This pack size has demonstrated high growth and contributed strongly to *100PLUS*'s total volume. This year, we have also reformulated the entire range of *100PLUS* to less than 6g/100ml of sugar. The lower-sugar range drew strong consumer support and was endorsed by the Thai Food & Drug Administration with the Healthier Choice logo.

The return of *F&N* Sarsi in a retro-styled 250ml glass bottle in August 2018 generated buzz in the Thai beverage market. Riding on

***100PLUS* teamed up with influential Thai celebrity, Toon Bodyslam, for the third consecutive year, to drive brand reach and awareness**

370ml

New pack size drove sales of *100PLUS*

***100PLUS* has been reformulated to contain <6% of sugar**

the excitement surrounding the return of this much-loved beverage, we supported the launch with in-store sampling and out-of-home advertising to drive awareness and encourage trials. We also tapped social media platforms and used influencer marketing to reach younger consumers. *F&N Sarsi* also sponsored events such as THE BYRD & HEART HIGH SCHOOL, CLASS REUNION CONCERT in February. *F&N Sarsi* was so well received by Thai consumers that it gained significant share of market within a short period of time. *F&N Sarsi* is now distributed to HORECA and provision channels, and is available in over 10,000 7-Eleven stores nationwide.

(D) VIETNAM

F&N operates in Vietnam through:

1. its 20.01% investment in Vietnam Dairy Products Joint Stock Company ("**Vinamilk**") and
2. its wholly-owned subsidiary, F&N Vietnam Limited Company ("**FNV**").

Vietnam is one of the most profitable regions, accounting for 38.7% of the F&B PBIT.

The Vietnam beverage market remains attractive due to increasing purchasing power and favourable demographics. Its real GDP is projected to expand 6.8% this year, before moderating to 6.7% in 2020. The sound economic conditions are expected to drive another period of sustained growth in the Vietnamese FMCG market.

The Group incorporated F&N Vietnam Limited Liability Company in August 2016, to lay the foundation for expanded business operations beyond the functions of a representative office which was set up in June 2015. F&N Vietnam currently distributes, markets and conducts trading of non-alcoholic beverages in the country. This operation is in addition to the Group's investment in Vinamilk.

(i) Vietnam Dairy Products Joint Stock Company

F&N's investments in Vietnam date back to February 2005, when it first took an approximately 5% stake in Vinamilk. In December 2016, the Group completed its acquisition of additional shares representing approximately 5.4% interest in Vinamilk through a competitive bid process. Thereafter, through further purchases from the market, the Group continued to increase its stake in Vinamilk. As at 30 September 2019, the Group owns a 20.01% interest in Vinamilk. On account of the Group's shareholding in Vinamilk and its appointment of a second representative to its board, the Group was deemed to have a significant influence over Vinamilk for accounting purposes in

accordance with the Singapore Financial Reporting Standards. Consequently, effective 16 April 2017, the Group started to equity account for its share of Vinamilk's profit under the equity accounting method.

In FY2019, Vinamilk contributed \$110.9m to F&N's bottom line, accounting for 39.1% of the Group's \$283.5m profit.

Vinamilk, one of the top listed companies by market value on the Ho Chi Minh Stock Exchange, is Vietnam's largest dairy company, primarily involved in the production, supply and distribution of dairy products including powdered, liquid and condensed milk and yoghurt, as well as beverages including soy milk, fruit juice and tea. Vinamilk is present in 40 countries around the world, with 13 dairy factories and 12 dairy farms in Vietnam.

(ii) F&N Vietnam Limited Company ("FNV")

Since its incorporation in 2016, FNV has been laying the foundation for the Group's business expansion in Vietnam. Extending its operations beyond a representative office, FNV has been driving go-to market executions that saw F&N's popular canned milk brands, *TEAPOT* and *F&N*, penetrating the local market via successful sales and distribution strategies.

This July, FNV brought *F&N* Sweetened Condensed Milk in squeeze tube format to Vietnam. Available in three flavours – Milk, Chocolate and Strawberry – *F&N*'s squeeze tube packaging is the first of its kind in Vietnam. Sold exclusively at Emart in Ho Chi Minh City, FNV promoted the launch of *F&N* Sweetened Condensed Milk Squeeze Tube through on-ground activations and sampling activities across 12 days.

FNV continued to leverage *100PLUS*'s healthy and active brand image to strengthen its presence at selected sports venues and facilities like football fields, tennis courts, private gyms and universities in Ho Chi Minh City and Hanoi. At these locations, *100PLUS* booths were set up with eye-catching posters in a bid to educate and engage consumers on the benefits of consuming *100PLUS*. They were also treated to samples of *100PLUS* Original, Lime and Berry flavours as they participated in sporting activities.

100PLUS also continued to raise its brand visibility as the enabler of active lifestyles by supporting major sports and lifestyle events such as VIETNAM MARTIAL ART FESTIVAL 2019, RMIT 4X4 VOLLEYBALL TOURNAMENT and DANANG INTERNATIONAL MARATHON 2019.

F&N Sarsi is now available in over 10,000 7-Eleven stores nationwide in Thailand

39.1%

In FY2019, Vinamilk contributed \$110.9m to F&N's bottom line, accounting for 39.1% of the Group's \$283.5m profit

F&N Sweetened Condensed milk in squeeze tube was launched in Vietnam