

CEO Business Review

28	
CEO Business Review	28

34	
BEVERAGES	34
Core Markets	
Malaysia	36
Singapore	37
Myanmar	39

40	
DAIRIES	40
Core Markets	
Malaysia	42
Thailand	42
Singapore	45
Vietnam	46

48	
NEW MARKETS	48
Indonesia	49
Myanmar	49
Thailand	50
Vietnam	51

FOOD & BEVERAGE



EASY TO DIGEST

Enjoy milk that's easy on the stomach.

With the new MAGNOLIA PLUS Lactose Free Milk, have a glass full of what you deserve without a worry. With no discomfort or bloating, take a sip and savour the fresh taste of milk and all its nutritional benefits.

FILLED WITH VITAMINS
B1, B12, D3, Calcium & Protein





REFRESH, RE-ENERGISE,
REHYDRATE

**ZERO
SUGAR,
ZERO
CALORIES**
100%
ENJOYMENT



CEO Business Review

FOOD & BEVERAGE



Mr Lee Meng Tat
Chief Executive Officer,
Non-Alcoholic Beverages



Revenue

\$1,642.8m

\$1,603.1m in FY2020



As we transition from one public health alert status to another, we have utilised technology and refined our processes to ensure our people's connectivity, safety and wellbeing, and the continuity of service for our customers and consumers.

BUILDING RESILIENCE BEYOND COVID-19

More than a year since the outbreak of the COVID-19 pandemic, the rapid spread of infectious strains of the coronavirus has led to many parts of Southeast Asia reverting to lockdowns. At F&N, responding to changes in pandemic protocols – and providing the necessary support to our customers and our people – has also become another facet of our business. As we transition from one public health alert status to another, we have utilised technology and refined our processes to ensure our people's connectivity, safety and wellbeing, and the continuity of service for our customers and consumers. Teams across F&N continued to experiment with the new ways of working forged during FY2020, and trialling different ways to collaborate remotely and scheduling in-office working time. We are proud of our ability to adapt our ways of working, and we will continue to learn and experiment in the new year.

FY2021 FINANCIAL PERFORMANCE

The Food & Beverage (“F&B”) sectors in Thailand, Malaysia, Singapore, Vietnam and Myanmar have been impacted by restricted movement orders as a result of the pandemic. Dampened market sentiments, competitive pricing, supply chain disruption and volatile foreign exchange characterised the difficult market conditions. Despite these pandemic-induced challenges, our F&B division has proved resilient, achieving a healthy performance, driven by focused execution and financial prudence.

FY2021 sales for the F&B division totalled \$1,642.8m, a 2.5% growth over the last fiscal year, impressive in light of the pandemic. Top line growth was broad-based, with higher Beverages and Dairies sales recorded in Malaysia, Myanmar, Singapore and Thailand. However, owing largely to lower profit from the Group's associate company in Vietnam, Vietnam Dairy Products Joint

Mr Edmond Neo
Chief Executive Officer, Beer

Profit Before Interest & Taxation

\$258.1m

\$280.8m in FY2020



Stock Company (“**Vinamilk**”), higher commodity prices, and increased manufacturing and freight expenses, F&B FY2021 PBIT fell 8.1% to \$258.1m, from \$280.8m in the prior year.

Our Beverages division proved resilient, achieving top- and bottom-line growth in an environment of shrinking demand and rising input prices. Its top line grew 3.0% from last year, to \$452.7m. Aided by favourable sales mix, disciplined cost management and reduced promotional and marketing expenses, Beverages earnings surged 15.2%, to \$20.0m, up from \$17.3m a year ago. The strong performance was in spite of the impact from lockdowns of on-premise channel and stay-at-home restriction, and unfavourable foreign currency translation. Excluding foreign currency translation losses, Beverages earnings would have improved 64.8%.

Beverages Malaysia, our largest soft drinks market for Beverages, saw FY2021 earnings improve by 6.6% from last year. Lower promotional and targeted marketing spend, in addition to favourable sales mix, cushioned the impact of decline in on-premise consumption which was impacted by the pandemic. Soft drinks performance in Singapore and New Markets also improved. The better performance was largely driven by higher sales from vending business and functional products, and lower promotional and marketing spend. Despite intense competition and weak consumer sentiment, most

of our New Markets performed better. We protected our margins by reining in expenses, without compromising on our long-term objectives of brand building.

In October 2019, we commissioned our brewery – Emerald Brewery Myanmar Limited (“**EBML**”) – in Myanmar’s largest city, Yangon. EBML is a 80-20 joint venture between F&N and Sun Ace Company Corporation Limited from Myanmar. This year, to cater to the growing demand of CHANG, we added a new canning line to the brewery. We also continued to put efforts on building greater awareness and demand for our brand. Our hard work paid off as we grew our distribution network in key cities. CHANG reported strong year-on-year volume gain, and revenue growth of 77.3%. EBML’s stronger-than-expected beer sales helped boost Beverages top line performance. However, unfavourable foreign exchange rate movements impacted EBML’s earnings. Excluding foreign exchange losses, EBML turned profitable in just its second year of operations.

Higher Dairies sales also lifted F&B’s revenue. Dairies FY2021 revenue increased 2.3%, driven by higher domestic canned milk sales and strong export volume to Greater China, Indochina, Middle East and Africa. The better performance was achieved in the face of subdued on-premise channel demand in Singapore, Malaysia and Thailand due to movement restrictions. As stricter curbs

crimped domestic on-trade consumption in some of our markets, we relied on higher export volume and off-trade consumption to help push sales. Higher demand for at-home consumption, improved route-to-market, strong export sales, successful launches of new products, as well as favourable foreign currency translation effects contributed positively to top line growth. However, increased commodity and freight costs eroded Dairies earnings. Coupled with lower share of profit from Vinamilk, Dairies profit fell 9.6% from a year ago, to \$238.1m from \$263.5m.

Dairies Thailand delivered a resilient performance. In spite of weak on-premise consumption, overall volume grew. On the back of higher domestic and export volume, sales grew 2.0%. Earnings, however, was impacted by unfavourable foreign currency translation, rising input costs and freight expenses. Despite higher sales and lower promotional and advertising spending, Dairies Thailand profit decreased 3.1%. Similarly for Dairies Malaysia, while domestic and export volume and revenue grew in this fiscal year, earnings were adversely impacted by higher input and freight costs. Dairies Singapore’s profits were also squeezed by higher input costs and increased freight expenses. The Group’s share of profit from Vinamilk was also lower this year, by 7.5% to \$111.7m. Vinamilk’s earnings have been adversely impacted by higher input costs and unfavourable foreign exchange translation.

CEO Business Review

FOOD & BEVERAGE

STRATEGIC PILLARS TO BUILDING A PROFITABLE AND SUSTAINABLE BUSINESS

In these extraordinary times, F&N has stayed true to our purpose. We have cemented our commitment to developing a portfolio of health-focused and purpose-led brands that ride on our supply chain scale and our expertise in engaging consumers. These proven strategies have built our resilience, enabled us to withstand external shocks and to progress even in the most challenging of circumstances.

(A) PRIORITISING INNOVATION

One of our main priorities in this fast-changing world is to stay relevant and continue to offer products our consumers want. To keep up with, and even influence, these changes, we utilise deep consumer insights. We also adopt a disciplined innovation framework that enables us to correctly allocate resources to initiatives that will deliver products consumers want. We strategically invest in our core brands and execute our commercial plans to support brand health and sustainable growth of both the brand and the segment. Through this multi-pronged approach, F&N continues to reshape its brand and product portfolios, and stay ahead of the trend curve.

To excite our markets, limited-edition flavours and festivity packaging were introduced this year. In Singapore and Malaysia, we thrilled consumers with Chinese New Year packaging for 100PLUS and F&N festive variety packs; in Thailand, to celebrate Valentine's Day, F&N MAGNOLIA rollout its lactose-free milk range in unique Valentine's Day pack. In Malaysia, the rollout of the new F&N Sparkling Drinks in three unique flavours – Honey Lemon, Apple Barley and Espresso – was accompanied by limited edition gift packs.

Within the Beverage portfolio, we expanded our sparkling water offerings to include F&N ICE MOUNTAIN Sparkling Water in Yuzu & Osmanthus flavour; we added F&N NUTRIWELL Roselle Tea to the pasteurised tea

range; and a lactose-free variant under the F&N MAGNOLIA liquid milk brand for the health-conscious. These initiatives helped shape our beverage portfolio to meet changing consumer demands and health trends. Our packaging innovation includes new pack types and sustainable packaging for F&N ICE MOUNTAIN Water and F&N Fun Flavours and a refreshed look for CARNATION Sweetened Condensed Milk ("SCM"). In Thailand, we added a new flavour to Bear Brand Gold, and reformulated F&N MAGNOLIA Chocolate Malt milk. More exciting was the recent launch of the 100PLUS Hydration Bar. The all-time favourite rehydration drink, 100PLUS Original, is now available in a 75ml paper tube in frozen form. This 100PLUS Hydration Bar, a refreshing, icy cold confection, also carries the Healthier Choice Symbol by the Singapore Health Promotion Board ("HPB").

(B) INVESTING IN BRANDS

While innovation is a top priority for F&N, to achieve success through innovation, we put as much energy and investment into marketing new offerings as we do in generating them. We try to understand and anticipate our consumers' evolving needs, and identify opportunities and new segments. We then develop the entire go-to-market plan which aims to get our brands engaging with the right customers at the right time and place.

As technology integrates into our daily lives, we can no longer rely on traditional marketing approaches. The increase in mobile usage has spurred further change in consumer behaviour, making it necessary for us to adopt a mixed strategy of traditional and digital marketing to attract target audiences.

We aim to produce compelling content to drive engagement and build brand equity by leveraging social media platforms such as Facebook, Twitter, Instagram and TikTok. This year, F&N Teh Tarik got in on the act with its first TikTok campaign with a hashtag challenge. Users were encouraged to post videos showing off their dancing talents and using the hashtags #ShakeNTarik and #TehTarikOriFN for a chance to win attractive prizes. F&N NUTRISOY Fresh Soya Milk, adopted a 360-degree above-and-below-the-line marketing campaign

In these extraordinary times, F&N has stayed true to our purpose. We have cemented our commitment to developing a portfolio of health-focused and purpose-led brands that ride on our supply chain scale and our expertise in engaging consumers. These proven strategies have built our resiliency, enabled us to withstand external shocks and to progress even in the most challenging of circumstances.





CEO Business Review

FOOD & BEVERAGE

Given the uncertain external environment, the Group will continue to be vigilant and, at the same time, explore new growth opportunities that may arise.

to raise visibility and awareness of its new vegan-friendly formulation. Online advertorials, social media advertising on Facebook and Instagram, in-store displays and point of sales materials were adopted as key consumer touchpoints. It also partnered with social media influencers and content creators to encourage consumers to adopt a healthy, plant-based diet with its new vegan-friendly formulation.

100PLUS, for the second consecutive year, rolled out its STAY FIT campaign in Singapore, Malaysia and Myanmar with live, virtual workout sessions with local professional trainers. These home workouts served to encourage consumers to stay fit and lead active lifestyles even at home, and remind them the importance of staying hydrated during these restrictive times. As a strong advocate of sport development and active lifestyles, using sponsorships and activations, 100PLUS continued to support sporting events in all our markets, like mass runs, cycling, basketball, badminton, and even walking. We also partnered sporting bodies such as Swimming Association, Singapore Badminton Association and Singapore Table Tennis Association, and we sponsored school sports events in Singapore, Malaysia, Thailand, Vietnam and Myanmar.

In addition to investing in our core brands of 100PLUS (isotonic), F&N SEASONS and OYOSHI/OISHI (tea), F&N MAGNOLIA (milk and drinking yoghurt) and F&N ICE MOUNTAIN (water), we also nurture secondary brands that we see have the most opportunity in the future, like

F&N NUTRIWELL. This year, the rollout of F&N NUTRIWELL Roselle Tea was supported by in-store promotions and campaigns, as well as social media platforms and influencer-driven content to spread awareness and encourage consumption.

(C) BUILDING A SUSTAINABLE SUPPLY CHAIN

To create a more sustainable future, we are building a sustainable supply chain. From innovation to sale, each stage of the product's life is studied in order to reduce our environmental impact – from promoting the use of recyclable materials, to lower energy consumption, lower emissions of polluting gases and the optimisation of resources, especially water – while improving product quality and financial performance.

In Malaysia, this year, we teamed up with nine other key industry leaders in the fast-moving consumer goods sector to form the Malaysian Recycling Alliance. The first of its kind in Malaysia, this ten-member non-profit organisation's mission is to collaborate with the Malaysian Government and other stakeholders to jointly improve collection and recycling of packaging waste for a greener and cleaner Malaysia.

Within the Group, we rolled out various initiatives to reduce waste and encourage recycling, such as installing Reverse Vending Machines, lightweighting our packaging, and encouraging recycling via community engagement and deploying big bottle bins and crusher machines during events.

We have also been providing consumers with alternatives to PET packaging, by providing drinking water in sustainable packaging types such as paper carton and aluminum can.

At our Thailand dairy plant, the commissioning of a new THB30m solar photovoltaic system and solar roof with a generating capacity of 1MWp in April has reduced the plant's energy offtake from the grid, lowering both our energy cost as well as our carbon footprint.

We have also put a lot of work to ensure excellence in retail execution – both instore and online. Our expertise in channel management ensures the optimum store coverage, product presence, price points, shelf space and merchandising. To this end, we have developed an e-commerce business by having our own e-commerce store, F&N Life, and working with third-party platforms to respond better to the needs of consumers. We actively prioritise strategic partnerships with online retailers, working to ensure our products are well-represented on their platforms where our consumers can easily find them.

Looking at our results, in the context of current operating environment, I am encouraged by the progress we are making and successes in our execution of this strategy – in Malaysia, 100PLUS continues to lead in the carbonates and isotonic segments; F&N NUTRISOY and F&N SEASONS remain Malaysians favourite soya drink; F&N SEASONS and OYOSHI are the No.1 RTD tea brands; in our dairy business, our canned milk





egan-friendly. For the plant-based nutrition you need.

NutriSoy is packed with the essential nutrients you need, so you can enjoy the nutritional benefits of a plant-based diet with the brand you trust.

brands, F&N, TEAPOT and CARNATION, continued to dominate Malaysia and Thailand.

(D) INFRASTRUCTURE OPTIMISATION

Our 12 F&B factories in Singapore, Malaysia, Myanmar and Thailand have placed us in good position to serve our markets faster and cost effectively. As part of the New Product Development Transformation programme, we continuously seek innovative solutions to optimise our infrastructure assets.

To achieve that, we have been investing in new production lines to facilitate our extension into new product offerings and offer differentiated packaging capability. In the next few months, we will complete the construction of the RM182 million integrated warehouse in Shah Alam, which will be equipped with an automatic storage & retrieval system ("ASRS"), and the RM20 million drinking water line and warehouse in Kota Kinabalu Industrial Park. In Thailand, the 20,000-square metre Regional Distribution Centre, a fully integrated distribution centre in Rojana equipped with an RM60 million ASRS, will be fully operational by end of the year. In the coming year, upgrades to our Singapore plant will be completed, albeit delayed due to the COVID-19 impact on construction sector. These developments have not only given us additional capacity and capabilities, but also further enhance operational efficiency, equipping our organisation for future growth.

(E) EXPANDING INTO HALAL FOOD SEGMENTS

The Group listed entity in Malaysia, Fraser & Neave Holdings Bhd ("F&NHB") advanced its portfolio expansion through the acquisition of the Sri Nona Group of Companies – Sri Nona Food Industries Sdn Bhd, Sri Nona Industries Sdn Bhd and Lee Shun Hing Sauce Industries Sdn Bhd (collectively, the "Sri Nona") – for RM59.5m (\$19.3m). The addition of Sri Nona's leading brands strengthens the Group's halal position in Malaysia. It creates opportunities for the Group to further leverage its strong R&D capability, and builds on its leadership positions to deliver attractive returns in this high growth, convenience and ready-to-eat food sector.

Sri Nona is best known for its flagship product, the NONA Ketupat (rice cakes) range, which is the number one ketupat brand in Malaysia. Sri Nona's range of oyster sauce is also among the top three in its product category.

OUTLOOK

The Delta variant of the COVID-19 virus has dampened the global economic recovery. In Southeast Asia, the economic recovery has been delayed, not derailed; gains from reopening as vaccination rollout takes pace should help the lagging Southeast Asia economies get back to their pre-pandemic level of activities.

Although the performance of the Group is relatively resilient for the financial year, we remain cautious in our outlook

given the challenging market conditions. Vaccination rates have picked up and lockdowns have eased in our key markets in Malaysia, Myanmar, Singapore, Thailand and Vietnam, but growing unemployment and reduced disposable income are leading us to expect that consumer sentiment will remain weak. Sales from out-of-home channels will likely remain soft. On top of softened consumer demand, rising commodity costs are adding to the woes.

F&N will continue to strengthen our fundamentals, including reengineering processes, optimising resources, reviewing our cost structure and restructuring where necessary. We will focus on innovation in the health and wellness category. We seek to leverage technology and digitalisation to provide consumer insight, improve processes and operations, to gain competitive advantage, and to sharpen our execution in the market. We will continue to refine our product mix and pricing to strengthen our businesses.

In addition to strengthening our beverage business, we are also building a Halal Food pillar which will provide us a platform to offer innovative products to more halal food segments. We are leveraging partnerships within the Group to expand route-to-market coverage and supply chain synergies and in the near term, to expand capacity for the operations.

Given the uncertain external environment, the Group will continue to be vigilant and, at the same time, explore new growth opportunities that may arise.