

To Shareholders



George Huang Chang Yi
Chairman

I am pleased to announce that our company earned a net profit after tax and minority interests of \$29.9 million for the year ended 31 December 2002, representing a growth of 10.0 per cent over FY2001, despite the continuing uncertainties and difficult market conditions faced during the year. Sales grew 4.9 per cent to \$392.3 million (FY2001: \$373.9 million). As a result of our improved efficiencies and move to higher value-added products and services, net profit margin increased to 7.8 per cent, compared with 7.5 per cent in FY2001.

I am also pleased to note that the management and staff of our company have continued successfully to pursue business excellence in our various operations, and this is reflected well in the following numbers achieved during FY 2002.

- Earnings per share grew by 10.0 per cent, achieving double-digit growth for the fifth consecutive year.
- EBITDA increased 6.7 per cent from \$48.6 million to \$51.9 million.
- Economic Value Added (“EVA”) increased by \$1.6 million to \$21.7 million, giving us an EVA spread of 16.0 per cent. In other words, our company is earning 16.0 per cent above its average cost of capital of 8.2 per cent for the year.

“...achieving double-digit growth for the fifth consecutive year.”

Business Overview

Singapore

In Singapore, we continued to rationalise and streamline our core business activities. Stringent cost control measures were pursued to enable our company to remain competitive and profitable in the prevailing difficult operating environment. We undertook aggressive measures to reduce our operating costs, continuing to apply EVA and Six Sigma methodologies to ensure greater efficiencies that can be maintained over time. For example, by reviewing work processes and re-organising, the Food Distribution business made significant improvements to Warehousing and Distribution operations. As a result, we were able to better utilise our resources and achieved significant cost savings.

Since the close of the first quarter of FY2002, a key customer of our Catering division reduced its meal requirements. This had an adverse revenue impact of 3 per cent based on FY2001 Group's turnover and to a larger extent on the Group's profit. Notwithstanding this, the Food Catering business continued to streamline its operations to achieve greater operational efficiencies. It also further expanded its business in commercial catering and won a number of new institutional accounts which included hospitals, factories, schools and cafeterias.

The Hog Auction and Abattoir business also faced challenges, with higher operating costs due to more stringent regulatory requirements for abattoir operations and falling pig numbers for slaughter. Nonetheless, we continued to strive for higher productivity from the rationalisation of operations and facilities.

Overseas

On the international front, growth and growth prospects were better. Over the past several years, our company has pursued a strategy to become an integrated food company with an international presence. Our overseas businesses now span China, Australia and the United Kingdom, and at the end of FY2002, contributed 37.6 per cent to the Group's turnover.



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In China, our subsidiary Shanghai ST Food Industries (“SSTFI”), launched several new rice-based frozen convenience food products targeted at the fast-paced lifestyle of urban consumers in the China market. The initial response has been encouraging. SSTFI also started contract manufacturing with positive results. In Australia, our subsidiaries benefited from higher facility management and seafood sales. In the UK, a £3-million factory extension at International Cuisine Limited (“ICL”) was completed in June 2002. This expanded the facility by some 40 per cent to provide much needed capacity to meet the growing demand for chilled ready meals.

To further strengthen our foothold in the UK chilled convenience food market, we made a successful bid to purchase the 70.1 per cent of associate company, S Daniels plc that we did not already own. S Daniels is involved in the manufacture and distribution of chilled fresh food products that includes fresh soups, freshly-



squeezed juices, fresh-cut fruits, sandwich fillings and fresh salads. In particular, its New Covent Garden soup is the leading brand in the fresh soup market in the UK. We see continuing growth potential in the UK chilled convenience food sector which has been growing at an average of 8-10 per cent per year, well above the overall food industry average growth rate of 2-3 per cent. By investing in this higher growth chilled convenience food sector, we expect to achieve sustainable long-term growth in the UK.

Growth Strategy

Singapore

Singapore is our hub for the South-east Asian region, and over the years, we have developed various core competencies and robust business models. These competencies will allow us to endeavour to scale up or replicate our business models in the region. In Singapore, we will continue to strengthen our strong market position and capabilities in selected areas such as food preparation, and seek

growth through innovation and operational excellence. The strong cash flow generated from our Singapore operations can help us fuel our growth overseas.

“...our company has pursued a strategy to become an integrated food company with an international presence.”

Overseas

In the next few years, we expect more of our growth to come from overseas operations. We will focus our overseas investment efforts primarily in two geographical areas, namely the UK and China, and in businesses that we believe have good growth potential arising from changing consumer lifestyle and needs in those areas.

In the UK, we will continue to focus on the chilled convenience food sector which we believe will continue to have a higher rate of growth compared to the UK food industry as a whole. Also, as the UK leads Continental

Europe in this chilled convenience food sector, we believe that as the demand for, and the infrastructure to handle, chilled convenience foods develop in Continental Europe, the UK will serve as a good springboard to tap opportunities in the European market.



In China, where the stage of economic development is different (but nevertheless the trends are similar), our focus will be on the frozen convenience food sector. We see promising growth in this sector as rising income levels will create demand and

the ability to pay for more variety, quality, nutrition and convenience in the food consumed. We believe there are opportunities in manufacturing value-added meat and meat-related products. In addition to food manufacturing, we will explore opportunities in value-added cold-chain food distribution services in major hub cities throughout China.

New Major Shareholder

As minority shareholders are aware, SembCorp Industries (“SembCorp”), our major shareholder, had over the last 2 years been looking to divest its 75 per cent stake in SFI as food was identified as not a core business for them. In September 2002, SembCorp announced a preferential rights offer for its shareholders to purchase its entire holding of SFI shares at 70 cents per SFI share. This offer was approved at a SembCorp EGM in November and the divestment duly completed in December. Following this exercise, Singapore Technologies Pte Ltd (STPL), a shareholder of SembCorp, through its wholly-owned subsidiary Ambrosia Investment Pte Ltd acquired 71.8



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per cent of SFI's issued share capital, and consequently has become our new parent company. Your Board and Management see this as a positive development for our company as the majority shareholder uncertainty is settled, and the company can now focus on the development and implementation of longer-term growth strategies with greater confidence.



Achievements

During the year, we were honoured to receive several awards that reinforced SFI as a top-class company. For the second year running, the Securities Investors Association of Singapore (SIAS) presented our company with the Most Transparent Company Award for the Manufacturing Category. The judging criteria for the award included timeliness, substantiality and clarity of news release, degree of media access, frequency of corporate result announcements and content, and communication channels. Our company also received the Total Defence Award and the Singapore Armed Forces Certificate for Employers, both in recognition of our contribution towards Total Defence in Singapore.

Dividends

The Board of Directors has recommended a first and final gross dividend of 3 cents per share, and a special gross dividend of 2 cents per share, making a total gross dividend of 5 cents per share (100 per cent of the 5 cents par value per share). The proposed dividend will amount to a dividend payout of 65 per cent of the net earnings for the year. This is in line with the target to return 60-70 per cent of net earnings to our shareholders each year, subject to there being no other pressing need for funds.

A Note of Appreciation

On behalf of the Board and Management of the Company, I would like to thank Mr Wong Kok Siew, who stepped down as Chairman on 8 January 2003, for his leadership and guidance over the last 3 years. In addition, I would like to express our appreciation to Mr Heng Swee Keat who stepped down on completing his term as Board member on 8 January 2003.



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I would also like to take this opportunity to welcome Mr John Lim Kok Min to the Board of SFI. I am confident we will benefit from his wealth of experience which includes more than 30 years in the food and beverage industry.

Looking Ahead

The difficult operating conditions we have experienced in Singapore in FY2002 are likely to continue into much of FY2003. To continue to maintain our profitability, we will apply EVA and Six Sigma methodologies to help in business rationalisations, and to keep our operating costs down while continuing to deliver to our best, to meet the demanding requirements of our customers. We will continue to drive growth and profitability in our overseas operations while looking for new opportunities to grow.

Finally, I would like to thank all our shareholders, customers, suppliers, employees and business partners for your unwavering support during the year. I look forward to your continued support and for further opportunities for us to grow together.



George Huang Chang Yi

Chairman

28 February 2003

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