Corporate Governance Report

INTRODUCTION

Our principles of corporate governance reflect our belief in brilliant execution and delivering results while building for the future. We believe firmly that integrity, excellence and commitment in our people supported by a sound system of policies, practices and internal controls are the success elements that will help us create long-term value and returns for shareholders.

Integrity and professionalism are the cornerstone of our commitment to build a top class company of which shareholders, staff, customers, suppliers and other stakeholders can be justifiably proud of. Sound corporate governance is one element of a sound corporation. This is an important requisite for our Group for its steady growth as a trusted and respected business enterprise.

Corporate governance principles and practices must remain relevant and evolve in a changing world. Just as we will be open to new ideas and practices, we will also be disciplined in discarding obsolete or ineffective practices and impractical ideas. In our on-going effort to remain lean, relevant and nimble, we will evolve with the needs of our business and our people to build a top class enterprise.

The Report of the Corporate Governance Committee on the Code of Corporate Governance ("Code") dated 21 March 2001 was accepted by the Singapore Government on 4 April 2001. It is now part of the Continuing Obligations of the SGX Listing Manual. Introduced with effect from 1 July 2002, Clause 710(2) of the new SGX Listing Manual requires that on or after 1 January 2003, an issuer must "describe its corporate governance practices with specific reference to the Code in its annual report. It must disclose any deviation from any aspect of the Code together with an appropriate explanation for such deviation in the annual report".

At the same time, the Corporate Governance Committee on the Code has urged us to adopt a balanced approach by observing **"the spirit and not just blindly follow the letter of the Code..."**

The Code

The Code is divided into four main sections:

(a) Board Matters
(b) Remuneration Matters
(c) Accountability and Audit
(d) Communication with Shareholders

Each section is classified into Principles and Guidance Notes. We recognize and support the Principles and spirit of the Code. We note that each Company needs to develop and maintain its corporate governance process to meet the specific needs of its business demands. We note also that the Guidance Notes may serve to flesh out the underlying issues underpinning each of the Principles. We intend to manage our Group, keeping in focus the substance and spirit of the Principles of the Code.

This Report sets out how our company, Singapore Food Industries Limited ("SFI") has through its Board and Management effectively applied the principles of good corporate governance in a disclosure-based regime where the accountability of the Board to the shareholders and the Management to the Board provides the framework to create and grow sustainable shareholder value.

The Board of SFI and its Management are committed to achieving high standards of corporate conduct and has generally complied with the Principles of the Code. In the following sections covering each of the principles, we have outlined our policies and practices.

Corporate Governance Report

(A) BOARD MATTERS

The Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company.

Our Policy and Practices:
An effective board for SFI and our group of companies must be constituted with a majority of non-executive directors independent of management, with the right core competencies and diversity of experience to enable them in their collective wisdom to contribute effectively.

Every director is expected to act in good faith and always in the best interest of the company.

The principal functions of the Board are:

- Guiding the corporate strategy and directions of the Group, approving the broad policies, strategies and financial objectives of the Company and monitoring the performance of management;

- Overseeing the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;

- Approving the nominations to the Board of directors and appointment of key personnel and ensuring effective management leadership of the highest quality and integrity;

- Approving annual budgets, major funding proposals, investment and divestment proposals; and

- Providing oversight in the proper conduct of the Company's business and assuming responsibility for corporate governance.

The Chairman and Chief Executive Officer are separate persons in order to maintain an effective oversight. The Chairman is a non-executive director.

The Board comprises business leaders and professionals with industry and financial backgrounds. Profiles of the Directors are found in pages 12-13 of this Annual Report.

The Board meets to review the key activities and business strategies of the Group. The Board delegates specific responsibilities to board committees described in pages 31, 33, 34 and 36. Regular Board meetings are held quarterly to deliberate on specific issues of the Group including significant acquisitions and disposals, the annual budget, review the performance of the Group and approve the release of the quarterly, half-yearly and year-end results. The Board meets without the presence of Management at least once a year to review the performance of the CEO and Top Management and to review Board conduct. Where necessary, additional board meetings are held to address significant issues or approve major transactions. A total of seven board meetings were held in the year.

We believe that contributions from each director can be reflected in ways other than the reporting of attendances of each director at board and committee meetings.

A director would have been appointed on the strength of his calibre, experience and stature, and his potential to contribute to the proper guidance of the Company and its businesses. A director shoulders heavy and onerous responsibilities in the exercise of his fiduciary duties. To focus on a director's attendances at formal meetings alone may lead to a narrow view of a director's contributions. It may also not do justice to his contributions which can be in many forms including management's access to him for guidance or exchange of views outside the formal environment of board meetings. In addition, he may bring relationships strategic to the interests of the SFI group of companies.

The matrix of Board members' participation in the various board committees is provided in page 31 of this Report. This reflects each board member's additional responsibilities and special focus on the respective board committees of the Company.

The Board has adopted a set of internal controls which sets out approval limits for capital expenditures, investments and divestments, bank borrowings and cheque signatories arrangements at board level. Approval sub-limits are also set for management levels aimed at achieving an appropriate level of control for the effective and efficient running of the operations of the Company and its subsidiaries.

Changes to regulations and accounting standards are monitored closely by Management and, where applicable, approved by the Audit Committee. To keep pace with regulatory changes, where these changes have an important bearing on the company's or directors' disclosure obligations, directors are briefed either during board meetings or at specially-convened sessions conducted by professionals.

Newly-appointed directors are given briefings by the Management on the business activities of the Group and its strategic directions. During the year, the Board visited the Company's UK subsidiary and (then) associated company to be apprised of the strategies and operations of these companies.

The Company has adopted a policy that directors are also welcomed to request further explanations, briefings or informal discussions on any aspect of the Company's operations or business issues from the management. The CEO and, where appropriate, the Chairmen of the Board and board committees will make the necessary arrangement for the briefings, informal discussions or explanations required by the director.

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

Our Policy and Practices:
Presently, the Board comprises seven directors of whom six are non-executive directors, independent of management. The executive Director is Peter Tay Buan Huat who is President & Chief Executive Officer ("CEO"). The Chairman, George Huang Chang Yi, is an independent and non-executive Director. During the year, one non-executive director, Roger Yeo Kok Tong is an employee of a subsidiary of the principal shareholder. The remaining five directors are independent of management and the principal shareholder. The independence of each director is reviewed annually by the Nominating Committee.

This Board composition enables the Management to benefit from a diverse and objective external perspective of issues that are brought before the Board. It also enables the Board to interact and work with Management through a robust exchange of ideas and views to help shape strategies, policies and operating procedures for the Group. This together with a clear separation of the role of a non-executive Chairman and the President & CEO provides a healthy professional relationship between the Board and Management with clarity of roles and robust oversight. Key information regarding the directors is given in the "Board of Directors" section of the annual report.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the company - the working of the Board and the executive responsibility of the company's business - which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Our Policy and Practices:
The Chairman and President & CEO are separate persons in order to maintain effective oversight and that no individual or small group of individuals dominate the Board's decision making process. In addition, our Board meets without the presence of Management at least once a year. Also, the CEO and Senior Management regularly consults individual Board members (especially independent directors) and Board Committees through meetings, telephone calls and by electronic mail.

The Chairman who is non-executive is responsible for the functioning of the Board and is free to act independently in the best interests of SFI and its shareholders while the CEO bears executive responsibility for the running of the Group's businesses. The Chairman ensures that the members of the Board work together with the Management with the capability and moral authority to engage Management in constructive debate on various matters, including strategic issues and business planning processes.

The President & CEO is a Board member and has full executive responsibilities over the business directions and operational decisions of the Group.

As a general rule, board papers are sent to directors at least five calendar days prior to meetings in order for directors to be adequately prepared for the meeting. Senior Management staff (who are not executive directors) are in attendance at board and board committee meetings to provide additional insights into matters (including papers put up by Management) discussed during such meetings. Their presence enables Board members to have access to independently assess and evaluate the individual performance of key managers beyond the CEO.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.

Our Policy and Practices:
We believe that Board renewal must be an ongoing process, to both ensure good governance, and maintain relevance to the changing needs of the Company and business. The CEO, where he is also a board member, must also subject himself to retirement and re-election by shareholders as part of board renewal.

Our Articles of Association currently require one-third of our directors to retire and subject themselves to re-election by shareholders at every Annual General Meeting ("one-third rotation rule"). In other words, no director stays in office for more than three years without being re-elected by shareholders.

We will, at the coming Extraordinary General Meeting, seek shareholder approval for the alteration of our Articles of Association to, amongst other matters, provide for the CEO to be subject to the one-third rotation rule as well. This is to separate his role as CEO from his position as a board member, and to enable shareholders to exercise their full right to select all board members.

In addition, a newly-appointed director submits himself for retirement and re-election at the Annual General Meeting ("AGM") immediately following his appointment. Thereafter, he is subject to the one-third rotation rule.

The Board is supported by key board committees to provide independent oversight and provide business and professional expertise and perspective to Management. These key committees are the Audit Committee, Executive Resource and Compensation Committee, Nominating Committee, Strategic Review Committee and Budget Review Committee, made up wholly or predominantly of and chaired by independent and/or non-executive directors. Other committees may be formed from time to time to look into specific areas as and when the need arises.

BOARD COMPOSITION AND COMMITTEES

	Audit Committee	Strategic Review Committee	Budget Review Committee	Executive Resource and Compensation Committee	Nominating Committee
Board Member					
George Huang Chang Yi		C		C	C
Peter Tay Buan Huat		M	M		
Philip Tan Yuen Fah	C			M	M
Patrick Yeoh Khwai Hoh	M				
Roger Yeo Kok Tong		M	M		
Chow Kok Kee			C	M	M
John Lim Kok Min	M				
Non Board Member					
Kuan Kwee Jee				M	M

Note: C: Chairman
M: Member

Membership in the different committees are carefully managed to ensure that there is equitable distribution of responsibilities among board members, to maximize the effectiveness of the Board and to foster active participation and contribution from board members. Diversity of experiences and appropriate skills are also considered. The pre-dominance of independent and non-executive directors from different backgrounds and work experience ensures that there are appropriate checks and balances between the different committees. Minutes of Board Committees are circulated to the Chairman and/or to Board members as appropriate.

The members of the Executive Resource and Compensation Committee ("ERCC"), are also members of the Nominating Committee. The Nominating Committee is responsible for identifying and selecting new directors. It is appropriate that the members of Nominating Committee and the ERCC are the same as the ERCC, in the course of its search for management talent, is in touch with individuals who can be potential director candidates.

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

Our Policy and Practices:
We believe that Board performance is ultimately reflected in the performance of SFI. The Board should ensure compliance with applicable laws and board members should act in good faith, with due diligence and care in the best interests of the Company and its shareholders. In addition to these fiduciary duties, the Board is charged with two key responsibilities: setting strategic directions and ensuring that the Company is ably led.

The measure of a board's performance is also tested through its ability to lend support to Management especially in times of crisis and to steer SFI in the right direction, including the sensitive but important issue of CEO succession.

The financial indicators set out in the Code as guides for the evaluation of directors are in our opinion more of a measure of management's performance and hence are less applicable to directors. In any case, such financial indicators provide a snapshot of a company's performance, and do not fully measure the sustainable long term wealth and value creation of the company.

The Board, through the delegation of its authority to the Nominating Committee, has used its best efforts to ensure that directors appointed to our Board possess the necessary background, experience and knowledge in relevant food industry and geographic know-how, business and finance and have the appropriate management skills critical to the company's business and that each director with his special contributions brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

A formal review of the Board's performance is undertaken collectively by the Board annually and informally on a continual basis by the Nominating Committee with inputs from the other Board members and CEO. Renewals or replacement of Board members do not necessarily reflect their contributions to date, but may be driven by the need to position and shape the board in line with the medium term needs of the company and its business.

Access to Information

Principle 6: In order to fulfil their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

Our Policy and Practices:
We believe that the Board should be provided with timely and complete information prior to board meetings and as and when the need arises. New Board members are fully briefed on the business of SFI.

The Management is required to provide adequate and timely information to the Board on Board affairs and issues that require the Board's decision as well as ongoing reports relating to operational and financial performance of the Company and the Group. In order to ensure that the Board is able to fulfill its responsibilities, Management provides Board members with monthly management reports and financial accounts within 10 days after the respective month-end. All analysts' reports on the Company are forwarded to the directors on an ongoing basis as and when received. The Articles of Association of the Company will be amended to provide for directors to convene meetings by teleconferencing or videoconferencing. Where a physical Board meeting is not possible, timely communication with members of the Board has been effected through electronic means which include electronic mail, and in due course, teleconferencing and videoconferencing. Alternatively, Management has arranged to personally meet and brief each director before seeking the Board's approval.

The Board has separate and independent access to the senior management and the Company Secretary at all times. The Board also has access to independent professional advice where appropriate.

Likewise, the Audit Committee also meets the external and internal auditors separately at least once a year, without the presence of the CEO and other senior management members, in order to have free and unfiltered access to information that it may require. The Board also meets at least once a year without the presence of Management, to enable a free discussion of any sensitive matter.

The company secretary attends all board meetings and is responsible to ensure that board procedures are followed. It is the company secretary's responsibility to ensure that the Company complies with the requirements of the Companies Act. Together with the management staff of the Company, the company secretary is responsible for compliance with all other rules and regulations which are applicable to the Company.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

Our Policy and Practices:
We believe that a framework of remuneration for the Board and key executives should not be taken in isolation. It should be linked to the development of the strength of the management bench and key executives to ensure that there is a continual development of talent and renewal of strong and sound leadership for the continued success of the business and the company. For this reason, the ERCC oversees the compensation package for Management and key executives as well as directors and the members of the ERCC and the Nominating Committee are the same as highlighted in our Policy and Practices under Principle 4.

The ERCC performs the role of the Remuneration Committee. All the members of the ERCC are independent of Management. From time to time, we may co-opt an outside member into the ERCC to provide a global perspective of talent management and remuneration practices.

The ERCC conducts, on an annual basis, a succession planning review of the CEO and selected key positions in the Company. Potential internal and external candidates for succession are reviewed for immediate, medium-term and longer-term needs.

The ERCC reviews the remuneration of its non-executive directors, executive director, and senior executives, as well as major human resource management and compensation policies and practices for the rest of SFI.

The ERCC is chaired by George Huang Chang Yi, an independent and non-executive Chairman of the Company, and comprises two other independent non-executive directors namely Philip Tan Yuen Fah and Chow Kok Kee and one representative from the parent company, Kuan Kwee Jee who is its Director, Executive Resource. There are no management members on the ERCC.

The ERCC has access to expert professional advice on human resource matters whenever there is a need to consult externally. In its deliberations, the ERCC takes into consideration industry practices and norms in compensation. The CEO is not present during the discussions relating to his own compensation, and terms and conditions of service, and the review of his performance. However, the CEO is in attendance when the ERCC discusses policies and compensation of his senior team and key staff, as well as major compensation and incentive policies such as share options, stock purchase schemes, framework for bonus, staff salary and other incentive schemes.

The ERCC's scope of responsibilities include:

- Establishing compensation policies for key executives and directors
- Approving salary reviews, bonus and incentives for key executives
- Approving share incentives including stock options for executives and staff

- Approving key appointments (other than the CEO whose appointment is approved by the Board) and reviewing succession plans for key positions
- Overseeing the development of key executives and younger talented executives

The ERCC meets among its members without the presence of Management, at least once a year.

Level and Mix of Remuneration

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more for this purpose. A proportion of the remuneration, especially that of executive directors, should be linked to performance.

Our Policy and Practices:
The President & CEO as executive director does not receive director's fees. He is a lead member of Management. His compensation consists of his salary, allowances, bonuses, options and performance share awards conditional upon his meeting certain performance targets. The details of his compensation package are given below.

Non-executive Directors have remuneration packages which consist of a directors' fee component pursuant to the Company's Directors' Fee policy, an attendance fee component and a share option component pursuant to the Company's Share Option Plan. The Directors' Fee policy is based on a scale of fees divided into basic retainer fees as a director and additional fees for serving on board committees and fees for attendances. Directors' fees for non-executive directors are subject to the approval of shareholders at the AGM.

The basis of allocation of the number of share options for Directors takes into account a director's contributions and additional responsibilities at board committees and where appropriate, other board appointments at the subsidiary level. The report on Directors' Remuneration is given below:

DIRECTORS' REMUNERATION

Name of Director	*Salary S$	#Bonus S$	Directors' fees S$	Total S$	^Fair value of stock options granted S$
George Huang Chang Yi	-	-	60,000	60,000	5,050
Peter Tay Buan Huat	497,737	361,864	-	859,601	75,750
Philip Tan Yuen Fah	-	-	82,000	82,000	7,070
Patrick Yeoh Khwai Hoh	-	-	51,000	51,000	3,030
Roger Yeo Kok Tong	-	-	41,000	41,000	3,030
Chow Kok Kee	-	-	56,000	56,000	5,050
John Lim Kok Min 1	-	-	-	-	-
Wong Kok Siew 2	-	-	97,753	97,753	12,120
Heng Swee Keat 2	-	-	15,000	15,000	-
	497,737	**361,864**	**402,753**	**1,262,354**	**111,100**

* The salary amount shown is inclusive of allowances & CPF.
\# The bonus amount shown is inclusive of CPF.
^ Relates to options granted during the year by the Group. The fair value of stock options granted is estimated using the Black-Scholes Option Pricing model.

1: Appointed on 8 Jan 2003
2: Resigned on 8 Jan 2003

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report.

Our Policy and Practices:
The Company adopts a remuneration policy for staff comprising a fixed component and a variable component. The fixed component is in the form of a base salary which reflects market worth. The variable component comprises both short-term incentive and longer-term incentives. For managers and executives, the short-term variable component is in the form of a variable bonus and is linked to the performance of the Company and the individual in the achievement of Performance Indicators or Performance Targets capped at 2.0 or 2.5 months respectively. This is to reward managers and executives for effort in implementing and developing key attributes identified as important for the Company in the long term i.e. in building a living company with robust systems and on people development.

The longer-term variable component is in the form of Economic Value Added ("EVA")-based Incentive and Equity-based Incentives. They are to reward staff for sustainable value creation. By its stringent criterion, an EVA bonus is only declared if the Company earns more than its Cost of Capital in the year or at the very least, the Company is moving in that direction. The ERCC will evaluate the extent to which the Performance Indicators/Performance Targets have been achieved and the EVA based on the Company's performance and approve the bonus pool for distribution to staff. The actual allocation is based on the performance of the individual using a relative ranking exercise for each executive/management grade across the different divisions in the Company. Only one-third of the EVA bonus of the current year and of the EVA Bonus Bank (earned from past years) of each individual executive/manager is paid out. The other two-thirds are held in the EVA Bonus Bank for payment in subsequent years to ensure sustainable value creation by the Company.

Another element of the longer term variable component is the grant of performance and restricted shares (for senior management only) and share options to staff under the Company's Share Option Plan. The allocation of share options to staff is based on job grade, performance and potential. Length of service is not a criterion as all confirmed staff are eligible for award of options which vest over four years. For the exercise this year, 88 per cent of all Singapore-based employees were granted options. This element seeks to align the longer term interests of staff with that of shareholders.

Rather than set out the names of the top five key executives who are not also directors of the Company, we have shown a group-wide cross-section of executives' remuneration by number of employees earning $100,000 upwards in bands of $250,000 with break-down of compensation into fixed and variable (which are dependant on the individual's and company's performance) components below. This should give a macro perspective of the remuneration pattern in the Group, while maintaining confidentiality of staff remuneration matters.

There are no employees in the Group who are immediate family members of a director or the CEO.

REMUNERATION OF KEY EMPLOYEES
(For employees earning S$100,000 and above p.a.)

Compensation bands S$	Number of employees (Note 1)	Total Basic Compensation (Note 2)	Total Variable Compensation (Note 3)	Total Remuneration S$
100,000 - 249,999	25	2,620,363	973,258	3,593,621
250,000 - 499,999	8	1,600,658	921,669	2,522,327
500,000 and above	-	-	-	-
Total	**33**	**4,221,021**	**1,894,927**	**6,115,948**

Notes:

1 Including employees in local and overseas subsidiaries but not employees in S Daniels and associated companies. It also excludes the President and CEO of the company, whose remuneration details are reflected in page 34.
2 Inclusive salaries, AWS, related CPF and other statutory contributions, allowances and fringe-benefits.
3 Bonuses and related CPF and other statutory contributions and value of options granted during the year using the Black-Scholes Option Pricing Model.

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board is accountable to the shareholders while the Management is accountable to the Board.

Our Policy and Practices:
We believe that we should conduct ourselves in ways that deliver maximum sustainable value to our shareholders. We promote best practices as a means to build an excellent business for our shareholders. We are accountable to shareholders for the Company and the Group's performance.

Prompt fulfillment of statutory reporting requirements is but one way to maintain our shareholders' confidence and trust in our capability and integrity.

As part of building and maintaining shareholders' confidence and as part of an effort to maintain a regular communication channel with our shareholders, we adopted quarterly reporting since the Company's listing on the Singapore Exchange at the end of 1999. This is the first of many steps to build scalable systems and improve our capacity to grow in a sustainable and manageable manner, while minimizing execution and oversight risks.

Audit Committee

Principle 11: The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

Our Policy and Practices:
Our internal policy requires the Audit Committee ("AC") to have at least three members (preferably four), all of whom shall be non-executive and independent of both management and principal shareholder.

The AC currently consists of three directors all of whom are independent and of which at least two members have the appropriate accounting or related financial management expertise or experience. The members bring with them invaluable managerial and professional expertise. The Chairman of the AC, Philip Tan Yuen Fah, has many years of experience in managerial positions in the banking and food industries. The other members are Patrick Yeoh Khwai Hoh and John Lim Kok Min. The AC performs the following main functions:

- Reviews the quarterly, half-yearly and annual financial statements and recommends to the Board for approval;
- Recommends to the Board the appointment and re-appointment of auditors and their fees for shareholders' approval and reviews the scope and results of the audit, and its cost-effectiveness;
- Reviews the annual audit plan, internal audit process and the adequacy of internal controls and the company's risk management processes and;
- Reviews Interested Party Transactions for which there is a shareholders' mandate renewable annually.

The AC meets with the external and the internal auditors, without the presence of Management, at least once a year. During the year, the AC met four times.

From financial year 2003 onwards, the Board has delegated authority to the AC to approve the first and third quarter results.

The AC constantly bears in mind the need to maintain a balance between the independence and objectivity of the external auditors and the desire to have work that may be best carried out by the external auditors based on value for money considerations. During the year, there was no non-audit work carried out by the external auditors.

Internal Controls

Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

Internal Audit

Principle 13: The company should establish an internal audit function that is independent of the activities it audits.

Our Policy and Practices:
We believe in the need to put in place a system of internal controls and processes to safeguard the company's assets, and to appropriately manage risks that the Group and its various businesses are exposed to. Apart from the AC, other board committees may be set up from time to time to address specific issues and/or risks.

The Board is responsible for maintaining a sound system of internal controls to safeguard shareholders' investments and the group's assets. A formal process for identifying, evaluating and managing significant risks faced by the Group has been put in place during the year. The process is reviewed by the Audit Committee on a regular basis. Controls are designed to ensure that all activities operate effectively, efficiently and to high ethical standards. The Audit Committee has the express power to conduct or authorize investigations into any matters within its terms of reference. Minutes of the Audit Committee meetings are submitted to the Board for information. During the year, the Audit Committee, on behalf of the board, has reviewed the effectiveness of the various systems put in place by Management and is satisfied that there are adequate internal controls in the Company. The AC expects the risk assessment process to be a continuing process of review.

The Audit Committee's responsibility in overseeing that the company's internal controls and risk management systems are adequate is complemented by the work of the Internal Auditor ("IA"), which has been out-sourced to PricewaterhouseCoopers ("PwC"). In reviewing the group's risks, a risk management methodology called ORCA which stands for Objective, Risk, Control and Alignment is used to help management at a business unit consider its key risks and counter-measures. Periodically, these risks are reported to the AC.

The internal auditor plans its internal audit schedules in consultation with, but independent of Management, and its plan is submitted to the Audit Committee for approval at the beginning of the year. The Audit Committee also meets with the internal auditor at least once during the year without the presence of management. To ensure the adequacy of the internal audit function, the AC reviews the internal audit's activity on a quarterly basis. This practice of meeting with auditors without the presence of Management is similarly applied to our overseas subsidiaries. The non-executive Chairman and other non-executive directors of the respective boards of our overseas subsidiaries meet with the external auditors without the presence of local management at least once a year to satisfy themselves of the assistance given by Management to external auditors and for the external auditors to raise any other related significant findings.

IA is a corporate member of the Singapore branch of the Institute of Internal Auditors Inc. ("IIA") , which has its headquarters in the USA.

IA is guided by the PricewaterhouseCoopers Global Internal Audit Services Outsourcing Engagement Framework ("Framework"). The standards developed in the Framework are consistent with the Standards for the Professional Practice of Internal Auditing developed by the IIA. The Framework covers requirements in respect of the following:

- Independence
- Professional Proficiency
- Scope of Work
- Performance of Audit Work
- Management of the Internal Auditing Department.

The Internal Auditor's primary line of reporting is to the Chairman of the AC.

(D) COMMUNICATION WITH SHAREHOLDERS

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

Greater Shareholder Participation

Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Our Policy and Practices:
We believe in regular and timely communication with shareholders as part of our effort to help our shareholders understand our business better and the way the company operates. This is also part of our organization development to build systems and procedures that will enable us to operate globally.

Price sensitive information is first publicly released, either before the Company meets with any group of investors or analysts, or simultaneously with such meetings. Our Corporate Communications department manages investor relations and has a series of events planned during the year to brief the media and investment analysts on the Group's performance. The team communicates with investors on a regular basis and attends to their queries. It also organizes roadshows to keep international investors updated.

The Company has adopted quarterly results reporting since its listing. During the release of its respective quarterly, half-yearly and year-end results, an announcement is first released through MASNET onto the SGX website. Thereafter, a briefing by Management is held jointly for the media and analysts. The briefing materials and press releases are also published through MASNET. In addition, the Company's results in the MASNET format, briefing materials to analysts and press releases are made available on the Company's web-site at www.sfi.com.sg. Our Annual Report is also available on the Company's website.

Through its effort to provide comprehensive and balanced reporting, the company has been awarded "The Most Transparent Company Award" in the Manufacturing category in 2001 and 2002 consecutively. This public recognition by Securities Investors Association of Singapore of the Company's effort is heartening, bearing in mind that the Company was only listed on the SGX in November 1999.

We support the Code's principle to encourage shareholder participation. Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the identity of shareholders through the web are not compromised and following legislative changes being put in place to recognise electronic voting.