

Letter to Shareholders

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George Huang Chang Yi (Chairman) and Peter Tay Buan Huat (President and CEO)

Dear Shareholders,

Last year, in our Letter to Shareholders, we stated that while 2004 would be a challenging and exciting year, we envisaged that the SFI Group performance would be better than 2003. Growth would continue to be led by our overseas operations, especially in the UK, and our operations in Singapore would be more resilient and competitive following our strategy to re-focus to meet changing market conditions.

We are pleased to report that in 2004 we have delivered on these expectations. Despite the various challenges encountered during the year, we are happy to report that our net profit has returned to double-digit growth. Turnover at SFI Group level for the year was \$596.5 million, an increase of 11.6 per cent over 2003, while net profit came in at \$35.0 million, an increase of 13.7 per cent over 2003.

Growth came from across our core businesses. In particular, our UK/Europe operations gave a sterling performance with a 22 per cent growth in sales and 33 per cent growth in pre-tax profits. As a result, our overseas operations now account for 59 per cent of Group turnover, while generating 46 per cent of Group Earnings Before Interest, Tax and Depreciation (EBITDA), and contributing to 31 per cent of Group pre-tax profits.

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to all our stakeholders, accountability and proper corporate governance across all our overseas operations. These common values and corporate culture, together with a compensation system based on results, are our pillars for sustained superior performance.

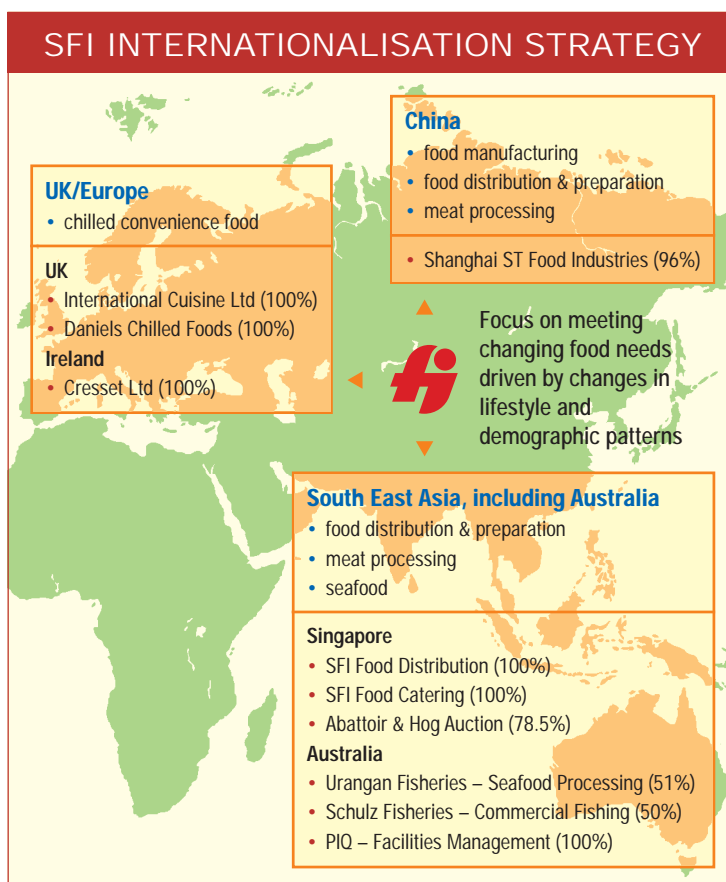
► 5-Year Strategy

During the course of 2003, we reviewed and implemented our 5-year strategic plan across all our key business units. This strategic plan contains clear targets to be achieved by 2008, and the action plans required to deliver these targets. The year in review, 2004, was the first full year of implementation of this strategic plan and the results have been gratifying. The high growth market segments in our overseas operations will be the major contributors to this growth, while our position in the Singapore market as the leading food company will continue to be strengthened through the twin strategy of business re-alignment to meet changing market trends, and the relentless pursuit of business excellence.

► Singapore

The Singapore market will continue to be a key market for us, both as a test-bed of Group-wide business and management concepts, as well as a source of strong cash flow. Based on our guiding principle that "No Business is Mature, No Market is Fully Penetrated", we believe that despite its relatively small size and highly competitive environment, the Singapore market can still offer growth opportunities, provided we adopt an enlightened approach to creatively search out and rigorously develop these opportunities.

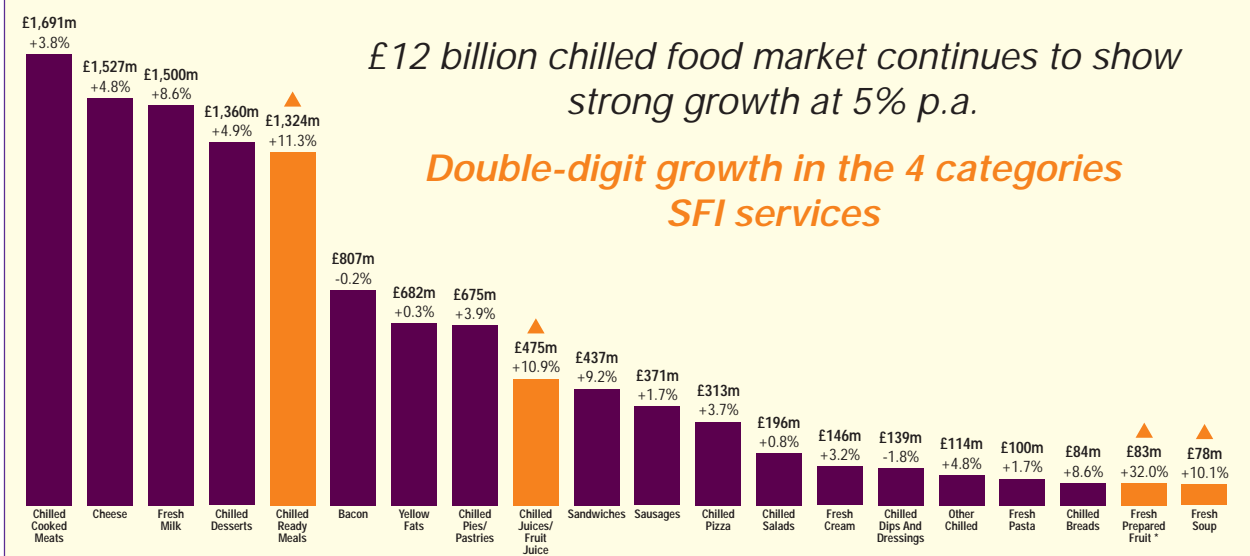
Our Food Distribution business re-aligned its business strategy in 2003 to focus on selected distribution channels. We identified the more promising market and product segments and the key success factors to deliver growth and healthy margins, and have drawn up strategy maps for each of these business segments. Strategy mapping is a comprehensive and structured tool to describe and communicate strategy by focusing on critical issues, measures of success, and strategic initiatives. Starting with the strategic goals, we identify key drivers so as to align organisational resources and efforts to achieve our strategic objectives. These strategy maps allow management and staff



to translate strategy into effective action, and then to track and monitor the progress of strategy implementation according to the milestones set. In 2004, despite the Avian Flu outbreak in the Asian region and its impact on the poultry industry, our Food Distribution business registered a respectable 4 per cent growth in revenues.

In 2003, our Catering business re-organised its operational systems and processes in response to stiff price deflation from our key customer, and to better meet the expected changes in the operating environment to service the renewed 5-year contract. At the same time, we also implemented a comprehensive efficiency improvement plan covering the key cost components of labour, materials, and utilities. In 2004, the first full year of implementing this focused strategy, we were able to achieve a creditable 3 per cent growth in catering sales after declines in the previous 2 years. Going forward, we can expect a short-term negative impact on catering sales in 2005 due to the Singapore Government's decision to move to a 5-day work week, which was also implemented in the Singapore Armed Forces camps. However, a double-digit annual growth in revenues is expected over the 3 years from 2006 due to a higher birth rate in 1988, which means higher enlistments for National Service in 2006/7.

TOP 20 CATEGORIES IN THE CHILLED FOOD MARKET



Source: IRI Omniscan Value Sales (£m) & % change, September 2004
* Geest industry estimates

Our Abattoir and Hog Auction business is dependent on the supply of live pigs from Bulan in Indonesia. In 2004, we achieved an increase of 14 per cent in abattoir revenue as on average, more pigs were slaughtered each day. We have an installed capacity to slaughter 1,500 pigs per day, though in 2004, only a daily average of 1,000 pigs were slaughtered. The Singapore consumer continues to prefer locally slaughtered pigs to imported chilled pork. Feedback from customers to SFI managers is that the air-flown imported chilled pork suffers occasionally from boar-taint and a milky taste in the paler meat. But till now, the availability of locally slaughtered pork is limited by the supply of live pigs. We can, however, expect the supply of live pigs to increase over the next few years as the sole supply source in Indonesia has been investing to expand its farm facilities to increase the output of porkers to dove-tail with our slaughter capacity. A reflection of the potential of increased slaughter numbers on profitability is that with an average supply increase of 50 live pigs per day in 2004, our full year profit before tax increased by \$2.3 million, equivalent to a 60 per cent increase from the year before. This excellent result was also helped significantly by cost saving measures implemented in late 2003.

In summary, the Singapore operations are expected to continue to perform well in the next few years, albeit with single-digit annual growth, and to be able to generate strong cash flows. As the capital expenditure requirements for the Singapore operations are expected to be low, this strong cash flow will enable the Group to continue to maintain its high level of dividends, as well as to fund our overseas growth through selective acquisitions.

► UK/Europe

In the UK, our strategy to focus on selected categories in the chilled foods sector has proven to be well-founded. This is an industry worth over £12 billion (or S\$36 thousand million) and growing at 5 per cent per year in 2004. In the latest published industry statistics (IRI Omniscan), out of the top 20 categories identified in the UK chilled foods market, there were only 4 categories growing at double digits. Through management foresight and perhaps a tinge of luck, SFI happens to be in these same 4 higher growth categories, namely chilled ready meals, fresh prepared fruit, fresh fruit juices, and fresh soup.

The key drivers in this chilled food sector are convenience, health, and enjoyment. The busy lifestyle that many people in the UK lead means that time is limited and so food that is convenient to prepare and consume is preferred. However, consumers also insist that the food provides the required nourishment and at the same time must be enjoyable (preferably healthy, yet indulgent). And more importantly, consumers are prepared to pay more for the benefits that they obtain from fresh prepared foods.

Daniels Chilled Foods, one of our two wholly-owned UK subsidiaries, has a dominant position in the UK fresh soup market. Our New Covent Garden brand is the leading brand with a market share of 46 per cent of the fresh soup market. In recognition of its impact in the UK food industry within the last 25 years, New Covent Garden soup was conferred the prestigious Platinum Q award at the UK Quality Food

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and Drink Awards 2004. This Platinum Q award recognises the most outstanding food product innovation in the UK food industry in the last 25 years in terms of its impact on consumers. Five products were short-listed, namely McCain Microwaveable Oven Chips, Marks and Spencer (M&S) Bagged Salad, M&S Ready Meals, Sharwood's Ethnic Foods, and New Covent Garden Soup. In selecting New Covent Garden Soup as the overall winner, the panel of judges described New Covent Garden Soup as "an entirely new food concept that completely changed people's attitude to fresh soup – a world away from tinned, bland soup", and credited it for "bringing restaurant quality soup to the supermarket shelf".

To underpin the continued growth of our market-leading New Covent Garden soup, and also to grow our fresh prepared fruit and fresh fruit juices businesses, we invested \$40 million in new factories during the year. These additional capacities will enable us to pursue growth in our existing markets, as well as own-label business with the major retail multiples in the UK. The investments translate to increased manufacturing capacity to support additional annual sales of up to \$90 million, for growth in the next few years. This underscores our commitment to meet our goal of doubling Daniels' sales and tripling earnings over the 5-year period (2003 to 2008). These investments in 2004 have been financed entirely through Daniels' strong cash flow and balance sheet.

International Cuisine, our other UK subsidiary, focuses on chilled ready meals (CRM) with an extended shelf life. We are the leader in this technology in the UK. The UK chilled ready meals market is worth £1.5 billion, and is growing at 11 per cent or over £150 million per year. Our top 3 customers have a total 36 per cent share of the grocery market, but only 24 per cent share of the chilled ready meals market. In view of the attractiveness of CRM, our customers

intend to increase their share of the CRM market to a level comparable to their share of the grocery market. This intent, along with the double-digit growth of the overall CRM market, should propel substantial growth for International Cuisine in the next few years. Our 5-year plan calls for a doubling of sales and earnings from 2003 to 2008.

The 100 per cent acquisition in March 2004 of Cresset Limited, which is based in Cork, Ireland, will provide us with a platform to expand our chilled ready meals business beyond the UK. We have completed a new CRM plant in Cresset costing \$10 million. The investment was financed entirely out of the combined cash flows and balance sheets of International Cuisine and Cresset. Cresset has since secured its first customer for this new plant, and we expect Cresset to address both the Irish and Continental European CRM markets progressively in the coming years.

► China

In China, our 96 per cent-owned Shanghai ST Food Industries subsidiary has established a good distribution network in Shanghai and in over 20 other major Chinese cities. We have used Insead's Value Innovation approach to identify new product opportunities and new market spaces while avoiding the bloody red sea of over-crowded and over-supplied "me-too's" which result in intense price competition. The first Blue Ocean initiative resulting from looking across complementary product and service offerings, Noodle Mate (营养伴侣), has just been introduced into the Chinese market through our distribution network. Noodle Mate adds nutritious and wholesome protein and vegetable to make instant noodles a complete meal.

In addition, we continue to look for M&A opportunities. We have been, and will continue to be, prudent in our process and will be guided by our strict investment criteria of



sustainability of returns above a hurdle rate that recognises both country and market risks. The Chinese market is undeniably big but is a very difficult market. As such, we need to assess carefully these opportunities to ensure that any investment we undertake has a reasonable and realistic chance of success.

► Performance-Driven Culture

Over the last few years, we have been operating in a very difficult business environment. To address this, we had implemented various cost saving measures including a wage freeze from 2001 to 2003 in Singapore. In the process, we were able to reduce our operating costs and restructure our businesses to stay competitive. Our flexi-wage system, first adopted in the mid 1990's, has served us well. While providing our employees with a stable basic income, the Group-wide system encourages delivery of top-rate performance through a high variable performance-linked compensation package. We would like to acknowledge the support of all our staff Group-wide for these initiatives and their continuing dedication, commitment and contribution to the growth of the Group.

► Dividend Recommendation

For FY 2004, the Board of Directors declared, for the first time, an interim gross dividend of 2 cents per share following the announcement of our 3rd Quarter 2004 results. This was paid on 18 January 2005. The Board of Directors made this prudent decision in order to enable our company to better manage its cash flow as the quantum of the dividend payout can be expected to grow with continued improved performance each passing year.

It has been our policy to pay 60 to 70 per cent of earnings as dividends, if the Group cash flow permits, after taking

into consideration the Group's capital needs for growth and other commitments. The Board of Directors is thus pleased to recommend to shareholders a final gross dividend of 4 cents per share. This will bring the total gross dividend to 6 cents per share, and represents a 20 per cent increase from the 5 cents gross dividend paid in 2003.

Together with the interim dividend paid out in January 2005, the total dividend payout of \$24.3 million will represent 69.3 per cent of profit after tax and minority interests for the year. This high dividend payout is possible because we have consistently achieved good and sustainable growth as a result of vigorous execution and adroit adaptation by Management of well-formulated strategies.

► In Conclusion

Over the last 5 years, we have almost doubled our sales with a compounded annual growth rate of 13.6 per cent. Similarly, we have almost doubled our profits attributable to shareholders in the last 5 years with a compounded annual growth rate of 13.3 per cent. This high and sustained growth rate has enabled us each year to continue paying high dividends to shareholders while offering prospects for future growth through continued investments in new acquisitions and increased production capacities.

Our 5-year strategic plan is designed to accelerate growth in a sustainable way. Growth will come from a combination of organic growth and through business acquisitions. We will be prudent in our search for new acquisitions, and seek out and invest only in those that meet our strict investment criteria. Our focus is on businesses with a point of difference in order to earn sustainable high margins. There are many challenges ahead of us, but we are confident that we have the right talent and plans to face these uncertainties successfully.

Finally, we would like to extend our heartfelt thanks to all our shareholders, customers, suppliers, business partners, our fellow directors, management and staff for your unstinting support and encouragement in 2004, and we look forward to your continued support to help us achieve a better 2005 and beyond.

George Huang Chang Yi
Chairman

Peter Tay Buan Huat
President and CEO

Singapore
28 February 2005