Operations and Financial Review

OPERATIONS REVIEW

Food Distribution

The Food Distribution business is conducted principally in Singapore, with our Food Distribution business in China still at a nascent stage. The overall turnover for Food Distribution dipped by 1.0 per cent or $1.4 million to $142.9 million in 2004, compared to the year before, due to lower Food Distribution sales in China. As a result, profit before tax dropped slightly by $0.4 million to $10.4 million for the year.

In Singapore, Food Distribution sales increased by 4.0 per cent during the year, as sales to a number of our market segments improved. In particular, we were able to achieve better sales to the Hotel and Catering, and Ship Supplies segments. The sales increase came from a combination of higher volumes and better selling prices.

Our strength in the Food Distribution business is derived from a combination of our ability to source from a wide network of suppliers from around the world, our substantial logistics capabilities to store, handle and deliver on-time frozen and chilled products, and our understanding of the local and global market conditions in the main categories of products we engage in. During the Avian Flu outbreak in the Asian region in the course of the year, for example, when there was a ban on the import of live chickens into Singapore for slaughter and sale as fresh chicken meat, we were well-stocked with frozen chicken meat to offer an alternative solution to the Singapore market.

Though the Food Distribution business in Singapore is often considered to be a mature business operating in a very competitive environment, we believe there will continue to be growth opportunities. We have a leading position in the Food Distribution business in Singapore, and through our substantial scale of operations, we are able to provide a high level of service to our customers, both in terms of the range of products available and our responsiveness to their needs. This is visibly demonstrated by our white refrigerated delivery trucks bearing the SFI logo, providing a ubiquitous sight on the streets in Singapore as they go about daily fulfilling the orders entrusted to us by our customers.

Looking ahead, we will continue to strengthen our customer relationships with a high standard of service and responsiveness in meeting our customers' needs. We will also continue to develop our supply position in selected product categories, which can give us good growth opportunities and better margins.

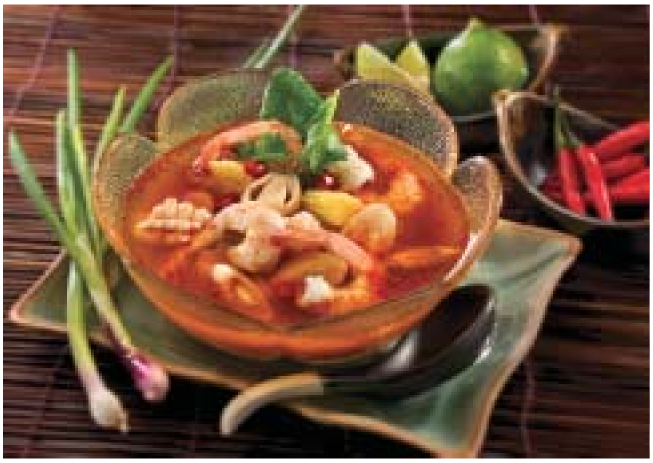
In China, the outbreak of the Avian Flu in the first half of the year had an adverse impact on our food distribution sales due to the import restrictions and export bans imposed by the Chinese authorities to control the spread of the virus. The China Food Distribution is not expected to be a significant portion of our business in FY 2005.

Food Preparation, Manufacturing and Processing

This business segment includes our Catering and Retort Pouch manufacturing operations in Singapore, and our overseas food manufacturing and processing operations in the UK, Republic of Ireland, China, and Australia. Total turnover for this business segment grew 16.4 per cent to $433.5 million in 2004, up from $372.4 million in 2003. Profit before tax increased by 11.5 per cent to $30.3 million in 2004, up from $27.2 million in 2003. Overseas operations, which grew by 17.5 per cent in sales and 29.4 per cent in profitability during the year, led the growth.

▶ Singapore

The Food Preparation and Manufacturing business in Singapore is made up of two different but related business



activities. The larger of the two is the institutional catering business, which is engaged in the provision of freshly prepared meals to organisations such as the military, schools, homes and staff canteens on a daily basis. The other is the manufacture of ambient ready meals in retort pouch. These ready meals have a long shelf life, and are convenient for outdoor use as well as for home use. In 2004, we achieved a modest 2.9 per cent sales growth for the Food Preparation and Manufacturing business after sales declines in the previous two years.

The institutional catering business is essentially a fixed unit price business for the duration of the supply contract. Our revenues depend on the number of meals that we serve in each location where we operate the catering service, and this depends on different factors such as the tastiness of the meals, the number of diners coming to eat on any given meal occasion, and the number of such meal occasions in a week. For the factors generally within our control, such as the tastiness of the meals, we try to maximise their impact through good recipe planning and skilful meal preparation. However, there are also factors beyond our control, and one that occurred in October 2004 was the introduction of the 5-day work week in all Singapore Government offices. This change from a $5\frac{1}{2}$-day work week effectively reduces the number of meal occasions in a week to a key customer. In response to this development, we have further streamlined our operations in order to reduce some of the fixed costs, and also looked for opportunities to reduce variable costs.

The retort pouch manufacturing operation has been actively developing new products for different applications as part of our plan to broaden the customer base for this category of products. We have a team of chefs and food technologists to develop new product recipes, and the technical competence and experience to scale-up development samples into commercially acceptable products. In 2003, we launched a range of Asian cooking sauces, desserts and noodle gravies, which we were successful in exporting to Australia. In 2004, we introduced a new range of ready-to-eat South East Asian and South Asian curries into the Japanese market where the consumers are increasingly interested in ethnic cuisines while a range of ready-to-use South East Asian cooking sauces were tested for the UK market.

Looking ahead, we will continue to seek new export opportunities. Singapore has a reputation as a manufacturing location with high standards of hygiene and food safety. In addition, Singapore is also known for its range of culinary delights such as South East Asian cuisines. As changing lifestyles and growing affluence in selected markets bring about a demand for new eating experiences that are convenient to prepare, we will address these opportunities with continuing innovation and responsiveness to customer needs.

▶ UK/Europe

The UK/Europe region is one of the three regions in the world that we have decided to focus on within our internationalisation strategy. In this region, we have chosen to concentrate on the chilled convenience food sector. We took our first step in the UK in 1991 with a modest investment in International Cuisine, a start-up company then producing chilled ready meals with an extended shelf life. We have since seen the chilled convenience food sector grow in the UK at a rate that is three to four times that of the growth rate of the overall UK food industry. This sector is now a £12 billion sector, and given its higher base, is growing at 5 per cent per year in the UK.

We have two wholly-owned subsidiaries in the UK involved in different categories of the chilled convenience food

Operations and Financial Review

sector. One is Daniels Chilled Foods, which we acquired in December 2002, and which is involved in our core categories of fresh soup, fresh fruit juices and blends, and fresh prepared fruits. The other is International Cuisine Limited, which has grown into a leading UK supplier of chilled ready meals with an extended shelf life. During the year, we also acquired a ready meals manufacturer, Cresset Limited, based in Cork, Ireland. This provides us with a base to expand our chilled ready meals business beyond the UK into Ireland and the other countries in the European Continent.

Daniels Chilled Foods

Daniels had a full year sales of $178.7 million in 2004, up $28.0 million or 18.6 per cent from the year before. The profit before tax was $10.8 million, which was an increase of $5.0 million or 86.2 per cent from FY 2003. About 48 per cent of Daniels' sales comes from the multiple retail sector, while 46 per cent is from the food service sector. In addition, about 4 per cent comes from the industrial sector, with exports accounting for the remaining 2 per cent.

Daniels operates in several chilled categories led by its two brands and supported by own label contract manufacturing business. The main brand is the New Covent Garden Food Company brand. The products that carry this New Covent Garden brand include our fresh soup, fresh sauce, and fresh juice blends; these products are sold mainly in the retail sector. Our other brand is the Johnson's brand; the products under this brand are sold mainly in the food service sector. Johnson's products include freshly squeezed orange juice, fresh smoothies, fresh prepared fruits, and fruit and confectionary ingredients. In the own label business, wherein we are a contract manufacturer for multiple chain stores in both the retail and food service sectors, our products include fresh juice and smoothies, fresh prepared fruits, salads, and sandwich fillings.

In 2004, the fresh soup market in the UK grew by 13.7 per cent, and was worth £80 million in the major UK retail multiples. New Covent Garden soup increased its sales by 16.9 per cent, and by the end of the year, had achieved a 46 per cent share in the UK fresh soup market. The New Covent Garden brand has established a strong brand equity with consumers, and from our market research, the New Covent Garden brand is seen as "fresh modern creative foods made with traditional values". We supported this brand image with advertising in the national print media, and also through a joint promotion with the National Trust in the UK in the autumn. Improvements were also made to the packaging graphics to enhance point-of-sale display.

During the year, we stretched the New Covent Garden brand into two other chilled food categories. These were fresh sauces and fresh fruit juice blends. The results have been modest and we have begun to make improvements from the experience gained in the launch. We will re-launch with an improved offering in 2005.

In order to support our organic growth over the next few years, we invested over $40 million in new factory and warehouse capacities during the year. A new prepared fruit factory was set up in Leeds to meet demand from the fast growing prepared fruit market. This factory allows us to more than double our production capacity and also to meet the stringent requirements of the major retail multiples for own label contract manufacturing business. We also set up a fresh juice factory in Kent to replace our old and congested factory in London. This London site near the new Arsenal soccer stadium, was sold during the year, with a one-year lease back arrangement, in order to provide us time to build a new factory. This new factory in Kent will significantly increase our capacity to produce freshly squeezed juices for both the food service and multiple retail sectors. It is equipped with state-of-the-art equipment that will enable



us to produce high quality products consistently. New equipment was also installed in our main soup factory in Peterborough to increase both soup and sauce production capacity. An existing free-hold chilled warehouse in Peterborough was acquired which will improve supply chain capabilities for Daniels.

International Cuisine Limited (ICL)

In 2004, ICL's sales was $111.1 million, an increase of $10.1 million or 10.0 per cent compared to the year before. The profit before tax was $5.7 million, an increase of $0.6 million or 11.8 per cent over FY 2003.

ICL operates in the £1.5 billion chilled ready meals (CRM) market in the UK, which grew 11 per cent in 2004. We are the leading company in the development and production of CRMs with extended shelf-life technology across a wide range of cuisines. These CRMs are manufactured under own label contract manufacturing arrangements for the retail sector, and due to the nature of the business, ICL has focused on only a limited number of key customer accounts. These include three of the top eight retail multiples and convenience retailers in the UK.

During the year, there was substantial consolidation in the retail sector as the major retail multiples sought to strengthen their position in the UK retail market. Competition was intense, and many retailers saw a deterioration in their financial performance. One outcome of this has been a downward price pressure on own label suppliers, and this has been particularly severe for those manufacturers that had business models which relied on low gross margins. In addition, retailers also consolidated their supply base in order to obtain better buying prices through economies of scale.

In the case of ICL, we have been prudent in our decisions when seeking increased sales. At the same time, in our factory operations, we have continued to apply proven business improvement methodologies, such as Economic Value Added and Six Sigma to enhance labour productivity and manufacturing yield and efficiency. In addition, we have continued to add value to our customers' CRM offerings through innovative new product development work. As a measure of this effort, we launched over 60 new and re-formulated products in 2004. We have also focused on strengthening our existing customer relationships through providing high quality products and consistent high customer service levels. As a result, we have continued to be a key supplier to the worthy customers we choose to serve.

Cresset Limited

We completed the acquisition of Cresset in Ireland in March 2004. This marked our first step to grow beyond the UK market within the European region. Cresset is a food manufacturer based in Cork in Ireland. It was established in 1974, and is a contract manufacturer of ambient ready meals, packed under different packaging formats, and ambient soup in cups. In the nine months since the acquisition, Cresset had sales of $17.7 million.

Our rationale for making the investment is to acquire a platform to produce CRMs for the growing Irish market and, in future years, to develop opportunities in the Continental European market for CRMs. Cresset possesses a number of key attributes that will allow us to introduce our CRM manufacturing technology more effectively compared to a greenfield site. These attributes include their experience in product development in ready meals, their expertise in retort technology, and strong customer relationships in the Irish retail market.

Ireland has one of the fastest growing economies in Europe, and its per capita GDP is second only to Luxembourg in the European Union. The lifestyle trends that we have seen in the UK are also evident in Ireland, such as a faster pace of

Operations and Financial Review

life, smaller families and a decline in cooking skills. There is thus a greater demand for convenience in meal solutions, and sales of chilled convenience foods have been growing steadily. However, in the CRM category, supply has depended almost totally on imports from the UK. One of the drawbacks of this arrangement is that the CRMs are not developed to local Irish taste. Another is the high wastage levels in the supermarket stores, as the longer supply chain from UK manufacturers mean that product shelf-life is significantly shortened by the time they are available to consumers in Ireland. Following the acquisition of Cresset, we have invested $10 million in a new CRM manufacturing plant in Cresset to develop this market opportunity. Within seven months, we completed the CRM plant in October 2004 and secured our first Irish customer. We expect Cresset to secure further CRM business in Ireland and Continental Europe in the coming years.

▶ China

China is another region that we have decided to invest in under our internationalisation strategy. As China's economy grows and living standards improve, we see opportunities for food products that are developed to local tastes and that address the changing lifestyles of the increasingly sophisticated Chinese market. We established a plant in Shanghai in 1997, under Shanghai ST Food Industries (SSTFI), to manufacture frozen chicken nuggets and other value-added chicken products. These are convenience products in the Chinese market, and we sell them under our Farmpride (金手指) brand.

Shanghai ST Food Industries Co Ltd

In 2004, SSTFI had a total turnover of $10.9 million, down from $18.3 million the year before. This was mainly due to a substantial drop in food distribution sales as a result of the Avian Flu epidemic in the East Asian region during the year. The Avian Flu also had an adverse impact on the sales of our own manufactured frozen chicken products. For the year, a loss of $0.5 million was incurred.

The operating environment in China is very competitive with many producers using low selling price and perpetual promotion as the basis of competition. Though we have been able to maintain a leading position with our Farmpride brand, particularly in the Shanghai and eastern China markets, we recognise the need to identify new innovative products and new market spaces. To pursue this, we embarked on an exercise using Insead's Value Innovation methodology to search out new Blue Ocean opportunities. As a result, by looking for New Market Spaces across complementary products and service offerings, we developed Noodle Mate (营养伴侣) as a nutritious Value Complement to instant noodles, a core product widely consumed by the Chinese.

Instant noodles is a very common and popular convenience food item in China; but by itself, it is not a complete meal. With growing affluence, the Chinese begin to seek wholesomeness and wellness in the food they eat. Instant noodles do not contain many of the necessary and essential nutrients required for a healthy and balanced meal. Noodle Mate adds nutritious and wholesome protein and vegetables to instant noodles, thereby making the combination a complete and tasty meal. This attractively packaged shelf-stable product is designed to meet the Chinese consumer's demand for food products that are convenient to prepare and eat, is healthy to consume, and is seen as part of modern living.

Using a Value Curve map, we came out with a Value Proposition that significantly differentiates us from less satisfying alternative meal solutions. The Noodle Mate range has been developed to suit the Chinese palate, and the product is packed in a retort pouch that is convenient to store, handle and use. We examined the

Buyers' Utility Map to identify the key attributes that enhances the consumer's total experience in terms of ease of preparation and consumption while meeting his needs for safety, pleasure and nutritional balance. The Price Corridor acceptable to the Masses has also been researched and the retail selling price is set at an affordable level that delivers value to the consumer, while providing us with a reasonable return.

Distribution of Noodle Mate has begun through our existing distribution network in early 2005, and will widen as the product gains greater consumer acceptance.

In addition to organic growth and the above Value Innovation initiative, we have continued to look for M&A, joint venture, and strategic alliance opportunities to accelerate growth in China. The business areas in China that we are pursuing include meat processing, seafood processing, and convenience food manufacturing.

▶ Australia

In Australia, we have a 51/50 per cent stake each in two companies that operate in the seafood industry. One is Urangan Fisheries which is engaged in seafood processing and operates from Hervey Bay and Glastone in the state of Queensland in Australia. The other is Schulz Fisheries, which is engaged in commercial fishing off the coast of Australia. Their products are sold in the Australian market, and some are also exported, particularly to East Asian countries like Taiwan and China. Total turnover for the year for our Australian operations was $31.5 million, an increase of $3.7 million or 13.3 per cent compared to the year before. Profit before tax was $0.7 million, an improvement of $0.3 million over the year before. These operations remain small, and are under review as to how they can make meaningful contributions to the Group going forward.

Abattoir and Hog Auction

The Abattoir operation in Singapore provides pig slaughter services, and derives its income from these services. The Hog Auction market conducts daily auctions of live pigs and charges a fee for each pig auctioned. The auction process helps to establish a transparent market for imported live pigs in Singapore. In 2004, total revenues for the Abattoir and Hog Auction businesses increased $2.4 million or 13.6 per cent to $20.1 million as a result of higher slaughter and auction numbers. Profit before tax was $6.2 million, an increase of $2.3 million or 60.2 per cent compared to the year before.

Presently, Singapore has only one approved source for live pigs, which is from the Indonesian island of Bulan. As the fees charged for auction and slaughter services are largely fixed per pig, the revenues of the Abattoir and Hog Auction market are dependent on the number of live pigs coming into Singapore each day. Also, as a substantial part of the cost of providing these services are fixed, any increase in revenue beyond the breakeven point will have a significant and positive impact on profitability. During the year, as part of our continuous improvement drive, we have continued to implement programmes to reduce costs, without compromising on our high service standards.

In 2004, the daily average number of pigs slaughtered at the abattoir was 997 pigs while the daily average number of pigs auctioned was 896 pigs. In comparison, a daily average of 944 pigs were slaughtered and a daily average of 848 pigs were auctioned in the year before. Looking ahead, we expect the supply of live pigs to increase as the supply source in Bulan has been investing in additional farm facilities.

Operations and Financial Review

FINANCIAL REVIEW

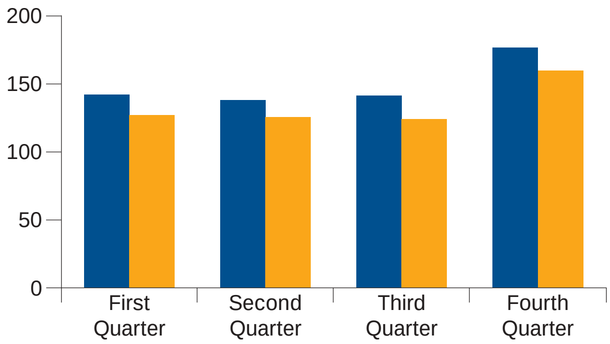
Quarterly Financial Highlights

$ million	2004 First	2004 Second	2004 Third	2004 Fourth	2003 First	2003 Second	2003 Third	2003 Fourth
Turnover	**141.6**	**137.8**	**141.0**	**176.1**	126.7	124.9	123.7	159.1
Profit before tax *	**12.1**	**8.1**	**9.6**	**17.1**	10.9	6.6	8.9	15.5

* Before Joint Venture Results

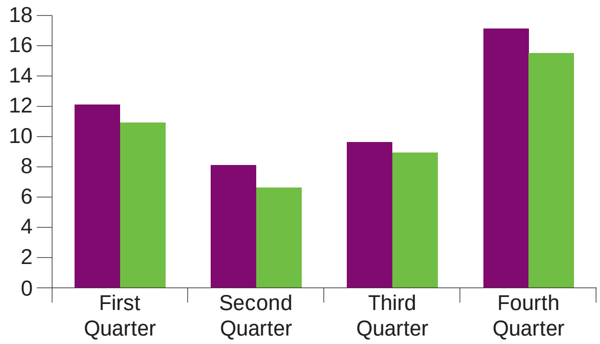
Turnover

($ million)



Profit Before Tax

($ million)



The Group achieved a well-rounded performance both in sales and profits for the year with growth reported in every quarter of the year compared to FY 2003. Other than our Shanghai subsidiary which bore the brunt of the impact of the Avian Flu outbreak, growth was also achieved in all business segments.

Turnover

Turnover for FY 2004 increased $62.1 million or 11.6 per cent to $596.5 million from $534.4 million for FY 2003. Of these, $17.7 million (or EUR 8.4 million) was contributed by newly-acquired Irish subsidiary, Cresset.

In Singapore, despite the Avian Flu outbreak, sales to most sectors increased with supplies to ships, wholesale, food service and small supermarkets doing better than FY 2003. Turnover in Singapore increased 4.3 per cent over FY 2003.

In the United Kingdom, Daniels' sales of New Covent Garden soup, drinks and prepared fruit continue to enjoy double digit growth. ICL on the other hand, had a somewhat difficult year although it managed to finish the year with slightly higher sales. ICL's main achievement during the year was the completion of the acquisition of Cresset, an Irish food manufacturing company, for the purpose of entering the Irish chilled ready meals ("CRM") market and to eventually penetrate the European market. Sales in the UK/Europe for FY 2004 was 22.2 per cent higher than in FY 2003.

Elsewhere, sales in Australia at $31.5 million was 13.3 per cent higher than FY 2003. Sales in the People's Republic of China ("PRC") was significantly lower as a result of the Avian Flu which saw import/export bans on the movement of chicken products in and out of the PRC.

On a geographical basis, overseas turnover increased 17.5 per cent to $349.6 million (FY 2003: $297.6 million) and now accounts for 58.6 per cent of Group turnover versus 55.7 per cent in FY 2003.

Profits

Profit before tax ("PBT") for FY 2004 at $46.9 million was 12.1 per cent higher than FY 2003. PBT margins at 7.9 per cent were comparable to that in FY 2003.

In Singapore, the Abattoir and Auction business reported a substantial 60.2 per cent growth in profits for the year as a result of higher throughput at the abattoir and auction market. Combined Food Preparation and Food Distribution profits were comparable to that in FY 2003 despite the impact of Avian Flu.

The UK/Europe operations registered a 33.1 per cent increase in profits, mainly due to Daniels' impressive profit

EBITDA and Cash Flows

$ million	2004	2003
EBITDA	69.8	61.1
Net Cash After Movements In Working Capital	57.1	40.2
Net Cash Used In Investing Activities	(52.8)	(14.6)
Net Cash (Used In) / From Financing Activities	1.2	(49.9)
Cash and Cash Equivalents At Beginning Of The Year	10.2	34.2
Cash and Cash Equivalents At End Of The Year	15.7	10.2

contribution of $10.8 million compared to $5.8 million in FY 2003. This is an increase of 86.2 per cent. ICL's profit at $5.7 million was 11.8 per cent higher than that in FY 2003. The Australian subsidiaries reported a higher profit of $0.7 million. China's operations reported a loss of $0.5 million due to the significantly lower business volume attributable to the curtailment of chicken product movements as a result of the Avian Flu outbreak during the year.

On a geographical basis, PBT in Singapore was higher by $1.7 million or 5.7 per cent. Overseas combined PBT increased significantly by 29.4 per cent from $11.3 million in FY 2003 to $14.6 million for FY 2004 despite absorbing a $2.0 million start-up loss from newly-acquired subsidiary, Cresset. Excluding Cresset's loss, overseas profits went up $5.3 million or 47.1 per cent. Overseas operations now contribute 31.1 per cent of Group profits for FY 2004 compared to FY 2003's 26.9 per cent.

EBITDA and Cash Flows

The Group achieved an EBITDA of $69.8 million for FY 2004, an increase of 14.3 per cent over FY 2003's $61.1 million as a result of higher profits reported and tighter management of working capital. EBITDA from Singapore operations was $37.7 million for FY 2004 compared with $35.9 million for FY 2003 forming 54.0 per cent of Group EBITDA. EBITDA from overseas operations increased an impressive 27.7 per cent to $31.9 million in FY 2004 and now contributes to 46.0 per cent of Group EBITDA, as against 41.0 per cent in FY 2003.

Cash flows generated from operations for the Group totalled $57.1 million (FY 2003: $40.2 million) for the year after accounting for working capital changes. Capital expenditures during the year were significantly higher at $48.9 million (FY 2003: $14.1 million) as a result of investments in the UK/Europe operations. Newly-acquired Cresset set up a new CRM plant in Ireland. During the year, Daniels invested significantly in new and expanded facilities for all its core businesses of prepared fruit, drinks, soup and sauce. These capital expenditures will underpin growth for the next 2 to 3 years.

Investments and Capital Expenditures

During the year, the Group through ICL acquired a 100 per cent interest in Irish food manufacturing group, Cresset Limited for a total consideration of EUR 5.5 million (of which EUR 1.2 million is payable only in FY 2008 upon certain profit target being met in FY 2007). During the year, only EUR 3.7 million (including acquisition expenses) were paid. The next tranche of payment of EUR 1.175 million is due to be made in March 2005. Subsequent to the acquisition, Cresset proceeded to build and complete a CRM plant at a cost of EUR 5.0 million ($10.6 million). This plant rolled out its first products to a key customer in December 2004.

The year also saw the Group investing some GBP 10.0 million ($34.7 million) in new facilities in Daniels in order to support Daniels' growth over the next two to three years. The new facilities in Daniels included a new state-of-the-art prepared fruit factory in Leeds (GBP 3.1 million), expanded soup and sauce factory capacities of GBP 1 million and investment in a new juice manufacturing plant in Headcorn, Kent (GBP 6.1 million, of which only GBP 4.5 million was paid during the year).

Elsewhere, capital expenditures were minimal.

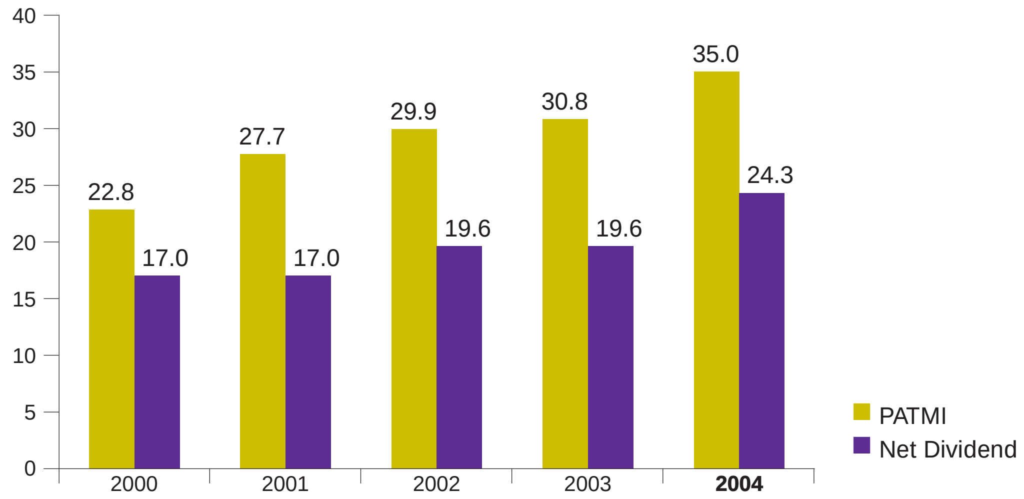
Dividends

The Directors are pleased to propose for approval by shareholders a final dividend of 4 cents (FY 2003: final dividend 3 cents; special dividend 2 cents) for each share of par value of 5 cents, less 20 per cent (FY 2003: 22 per cent) Singapore income tax, in respect of the financial year ended 31 December 2004. Subject to the approval of Shareholders at the coming Annual General Meeting, this will be paid on

Operations and Financial Review

5-Year Profit and Dividend Payout

($ million)



27 May 2005. This brings the total gross dividend in respect of financial year ended 31 December 2004 to 6 cents (FY 2003: 5 cents) after taking into account the 2 cents interim dividend paid on 18 January 2005.

The total dividend in respect of FY 2004 will be approximately $24.3 million (FY 2003: $20.1 million), representing a payout of 69 per cent (FY 2003: 65 per cent) of PATMI and is in line with the Group's declared dividend policy of paying out 60 to 70 per cent of PATMI each year, subject to Group cash needs.

The recommended dividend payable has taken into consideration the Group's present cash position, positive cash-flow from operations during the year, Section 44 tax credit balance and projected capital requirements.

Financial Risk Management

Investment Risk

The Group seeks to grow its business via three fronts – organic growth of its existing capabilities and capacities, development and acquisition of new capabilities, and acquisition of business entities or operating assets to expand its operating capabilities and capacities.

Investments and acquisitions are undertaken only after extensive and satisfactory due diligence work have been undertaken and must be consistent with the strategies of the Group to focus on the food industry. All major investment proposals are carefully evaluated, must meet minimum threshold hurdles and be assessed to be within acceptable risks parameters. All major investments have to be supported by Senior Management and submitted to the Board of Directors for approval.

Liquidity Risk

To manage liquidity risk, the Group monitors closely its net operating cash flow and maintains an adequate level of cash and cash equivalents as well as secures committed funding facilities from financial institutions. In assessing the adequacy of these facilities, Management reviews its working capital requirements, its debt obligations and its projected capital commitments so as to mitigate the effects of fluctuations in cash flows.

Credit Risk

To manage credit risks which may arise resulting from the failure of a customer to settle its debts as and when they fall due, Management has in place credit policies setting the maximum amount of credit allowed to be extended to each customer. These credit limits are determined following credit evaluations on all credit customers and credit exposures are monitored on an ongoing basis thereafter.

Interest Rate Risk

The Group's exposure to changes in interest rates relates primarily to the Group's debt obligations. Out of the $17.9 million of Singapore debt, 50 per cent are fixed-rate based. In the UK, interest rate caps have been bought covering for GBP 3 million and EUR 2.25 million loans. As at 31 December 2004, about 75 per cent of the UK/Europe total debt obligations are covered by these interest rate caps. The Group uses a combination of fixed-rate based and short-term floating interest rates that allows the Group to benefit from a relatively low interest rate environment in the short-term loan market, as well as mitigating the impact of any sudden interest rate spike.

Foreign Currency Risk

The Group incurs foreign currency risk on purchases and borrowings that are denominated in a currency other than the Singapore Dollar. The currencies giving rise to this risk are primarily the US Dollar and Australian Dollar.

The Group hedges approximately 75 per cent of all trade payables denominated in foreign currencies. The Group also hedges approximately 75 per cent of its estimated foreign currency exposure in respect of forecast purchases over the following three months.

The Group is also exposed to foreign currency translation gains or losses as a result of translating its overseas assets and liabilities held through its overseas subsidiaries. Such translation gains and losses are of an unrealised nature and do not impact on current year profits, unless the underlying assets or liabilities or the subsidiaries are disposed.

Sensitivity Analysis

In managing its interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, any prolonged adverse changes in foreign exchange and interest rate would have an impact on consolidated earnings.

Based on outstanding loans at 31 December 2004, it is estimated that a general increase of one percentage point in interest rate would decrease the Group's profit before tax by approximately $557,000.

Based on the level of foreign currency purchases and the level of overseas profit in FY 2004, it is estimated that a general increase of one percentage point in the value of the Singapore Dollar against other foreign currencies would increase the Group's profit before tax by approximately $957,000.

▶ Net Gearing and Interest Cover

In order to finance the acquisition of Cresset and the capital expenditures in the UK/Europe, the Group has taken up additional loans of $23.0 million during the year. This brings the Group's total debt from $44.1 million as at the end of 2003 to $67.1 million as at the end of 2004.

The Group's Debt to Equity ratio stood at 0.5 at the end of 2004 versus 0.4 at the end of 2003.

Interest cover for the year stood at a healthy 20.7 times. This is lower than FY 2003's 24.7 times due to higher interest charges as a result of a higher loan level.

▶ Economic Value Added ("EVA")

The Group continues to generate a return on total capital employed, way in excess of its Weighted Average Cost of Capital ("WACC"). Despite a higher WACC of 7.2 per cent versus FY 2003's 6.2 per cent, a 14.6 per cent EVA Spread (Return on EVA Capital less WACC on EVA Capital) was achieved.

EVA created during the year was $26.9million versus $23.7million in FY 2003 on average EVA Capital employed of $184.4 million (FY 2003: $173.3 million).

▶ Prospects

Singapore

Despite a very small and mature market, the Directors believe that the Singapore operations will continue to grow albeit in single digit in FY 2005.

The company will focus on the higher growth segments of ship supplies, exports and the food service sector. Both the Food Preparation and Abattoir and Auction businesses are expected to be stable in FY 2005.

Overseas

The Group's growth continues to be driven largely by its overseas businesses. In the UK/Europe, Daniels is expected to continue to deliver growth in its core product categories of soup, drinks and prepared fruit in FY 2005. Both the new prepared fruit factory and the new juice factory (to be completed at the end of 1Q 2005) have state-of-the-art facilities and capacities to cater to significant own-label businesses. Major contracts for both the own-label prepared fruit and drink businesses had been won in 4Q 2004 with two key retailers in the UK. The increased capacity for soup and sauce has also given Daniels the capability to manufacture for others as well as provide capacities for further growth.

CRM supplier, ICL is expected to perform better in FY 2005 with planned new product launches, while Cresset is expected to contribute (albeit in a small way) to the Group's bottom line in FY 2005.

The Group's operations in Australia and China are not expected to be significant contributors in the next one to two years. The Group continues to actively seek strategic alliances, joint-ventures and acquisitions to grow meaningfully in these regions.

Based on current prospects, the Directors believe that earnings is expected to grow in FY 2005 over that of FY 2004.