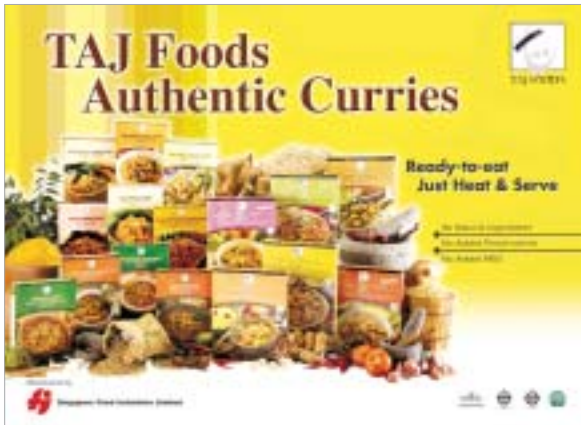


Operations and Financial Review

Operations Review



Food Distribution

The Food Distribution business is conducted principally in Singapore, and includes some exports to countries in the South East Asian region, Australia and Japan. The turnover for Food Distribution was \$136.5 million in 2005, unchanged from the year before. However, profit before tax increased by \$2.0 million to \$12.3 million for the year due to lower operating costs.

The Food Distribution business supplies various food products, such as chilled and frozen meats, seafood and fresh fruits, to different market segments in Singapore. Sales to a number of our market segments improved during the year. These included the food service segment and small supermarket chains. However, our sales to major supermarket chains and government institutions declined, as the former increasingly import directly from overseas suppliers, while the latter has increasingly resorted to a reverse auction mode of tendering with price as the sole criterion for selection.

Our resilience 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 and warehousing capabilities to store, handle and deliver frozen and chilled products, and our understanding of the local and global market trends and conditions in the categories of products that we sell. Despite the lingering Avian Flu outbreak in the Asian region affecting consumer

confidence in the consumption of chicken meat during the course of the year, for example, we have been able to increase our import and distribution of alternative meats for the Singapore market, such as pork and seafood.

Though the Food Distribution business in Singapore is often considered to be a mature business and operating in a very competitive market environment, we believe there are still growth opportunities we can develop. 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 we can source and in our responsiveness to their needs. Our white delivery vans bearing the red SFI logo, for example, is a common sight on the streets in Singapore as they go about their daily deliveries 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. The export growth opportunities we have identified will continue to be pursued with vigour. These include a number of interesting export opportunities we have been developing for manufactured food products such as ready meals and Asian cooking sauces in retort pouches.

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 1.4 per cent or \$6.1 million to \$439.6 million in 2005, up from \$433.5 million in 2004. Profit before tax increased marginally by 0.4 per cent to \$31.4 million in 2005, up from \$31.2 million in 2004. Overseas operations grew by 4.4 per cent in sales but profitability declined by 8.9 per cent during the year.

• 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, hospitals 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.

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 number of diners coming to eat on any given meal occasion, the number of such meal occasions in a week, and the quality of our meals and service. For the factors that are generally within our control, such as the quality of the meals, we try to achieve customer satisfaction through good recipe planning and skillful meal preparation. However, there are also factors that occur beyond our control. One such factor

was the introduction of the 5-day work week in all Singapore Government offices since October 2004. This change from a 5½-day work week effectively reduces the number of meal occasions in a week in the catering outlets that we operate for our key customer. In addition, the reduction in the full-time National Service period from 30 months to 24 months starting from January 2005 also had an adverse impact on our catering sales. In response to these developments, we have continued to further streamline our operations in order to reduce our operating costs.

In 2005, we experienced a decline of 10.0 per cent in sales for this business though profit before tax improved as a result of improved raw material costs and the release of provisions that were no longer required for the year.

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. So far, we have been successful in exporting to Australia a range of Asian cooking sauces, desserts and noodle gravies. We have also 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, and we have developed and begun to export a range of Chinese cooking sauces under an own label arrangement to a customer in the UK. In addition, we have also succeeded in making some headway in the supply of halal-certified retort pouch products (Meals Ready to Eat) to the Middle East.

Looking ahead, we will continue to seek and develop new export opportunities. Singapore has an international



Operations and Financial Review

reputation as a manufacturing location with high standards of hygiene and food safety. In addition, Singapore is also known for its wide range of culinary delights such as authentic South East Asian cuisines. As changing lifestyles, growing affluence and greater international travel 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 extra shelf life. We have since seen the chilled convenience food sector in the UK grow at a rate that is higher than the overall food industry's growth rate. This sector is now a £12 billion sector and 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 sector. One is S Daniels plc, 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 supplier of chilled ready meals with an extra shelf life in the UK. In March 2004, we also acquired a ready meals manufacturer, Cresset Limited, based in Cork, Ireland. This provided us with a base to expand our chilled ready meals business beyond the UK and into other countries in Europe through the Republic of Ireland.

S Daniels plc

The operating company for S Daniels plc is Daniels Chilled Foods (DCF). DCF had a full year sales of \$198.0 million in 2005, up \$19.3 million or 10.8 per cent from the year before. The profit before tax was \$14.1 million, which was an increase of \$3.3 million or 31.0 per cent from the year before. DCF serves primarily the multiple retail and the food service sectors, and its sales are fairly well-balanced between these two sectors. About 58 per cent of DCF's sales come from the multiple retail sector, while 39 per cent is from the food service sector. In addition, exports account for about 2 per cent of sales with the balance of 1 per cent coming from the industrial sector.

Daniels operates in several chilled categories led by its two brands (New Covent Garden Food Company and Johnsons) and supported with own-label business. The main brand is the New Covent Garden Food Company brand. The products that carry this New Covent Garden brand include fresh soup and fresh pasta sauce, and more



Executive management team at SFI's UK operations in Peterborough



President and CEO, Peter Tay with CEO of SFI UK/Europe Operations, Rob Burnett at Prepared Fruit Factory opening

recently, the brand has been stretched into fresh porridge and fresh risotto. These products are sold mainly in the retail sector. Our other brand is the Johnsons' brand, and the products under this brand are sold in the food service sector. Johnsons' products include freshly squeezed orange juice, fresh smoothies, fresh prepared fruits, and fruit and confectionery ingredients. In the own-label business, which covers both the multiple retail and food service sectors, the products we supply under own-label arrangements include fresh soup, fresh orange juice and smoothies, and fresh prepared fruits.

In 2005, the fresh soup market in the UK grew by 9 per cent, and recorded sales of £87 million in the major UK retail multiples. New Covent Garden soup increased its sales by 15 per cent, and by the end of the year, had achieved a 50 per cent share of the fresh soup market in the UK. 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 a Masterbrand communications strategy, and ran an advertising campaign in the national media throughout 2005. In addition, we worked closely with the trade press, and obtained good PR coverage for all our new product launches.

In order to support our organic growth in the next few years, we invested over \$40 million in new factory and warehouse capacities during the 2004/05 period. A new prepared fruit factory in Leeds commenced operations in September 2004 to meet demand from the fast-growing prepared fruit market. This factory allowed us to more than double our production capacity and more importantly, to meet the stringent requirements for the own-label business that we secured from a major retail customer in the final quarter of 2004. As a result, our freshly prepared fruit sales grew a substantial 74 per cent in 2005.



We also set up a freshly-squeezed orange juice factory in Headcorn, Kent, to replace our old and congested factory in London. This new factory was commissioned in March 2005, and increases substantially our capacity to produce freshly squeezed juices for both the food service and multiple retail sectors, and contains state-of-the-art equipment that will enable us to produce high quality products consistently. We have since secured significant own-label business with two major retail customers and supply will commence in the first quarter of 2006.

International Cuisine Limited (ICL)

In 2005, ICL reported sales of \$97.0 million, a drop of \$13.8 million compared to the year before. The profit before tax was \$3.1 million, a reduction of \$2.6 million compared to the year before.

ICL operates in the £1.5 billion (*thousand million*) chilled ready meals (CRM) market in the UK retail sector, and specialises in the development and production of CRMs with extra shelf-life across a wide range of cuisines. The CRM market in the UK is essentially dominated by retailers' own-label products, and there are only a handful of small niche brands. ICL manufactures CRMs under own-label arrangements for retail customers, and due to the nature of the own label business, ICL has only a limited number of customer accounts. These include some of the top retail multiples and convenience retailers in the UK.

During the year, there were a number of major developments in the retail market that had a severe and adverse impact on the CRM market in general, and on ICL's performance in particular. The first and most significant event was the discovery in February of the banned "Sudan-1" dye in a specific brand of Worcestershire sauce. "Sudan-1" is a red dye and is considered to be carcinogenic, and hence is banned for food use, though it is used in non-food consumer products

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SFI UK/Europe operations: Cresset Limited

such as shoe polish. As the Worcestershire sauce is used in many food products, the discovery of "Sudan-1" caused a widespread loss of consumer confidence in the safety of processed food products. Even though none of the products supplied by ICL contained this specific brand of Worcestershire sauce, our CRM sales were adversely affected in tandem with the industry-wide decline in sales of CRMs and other processed foods in the supermarkets. This condition eased as the year progressed, but the lingering doubt in many consumers' mind of the safety of processed foods had the effect of slowing down the recovery in sales of processed foods, including CRMs.

On the customer front, one of our key customers went through an extensive review and overhaul of its CRM supply arrangements during the year. We were successful in retaining our supply status. However, the acrimony that resulted from this exercise in relation to a supplier that was unsuccessful in retaining its supply status delayed the start of the new supply arrangements. This delay had an adverse effect on our sales to this customer. Separately, in the case of another key customer of ICL, following the key customer's acquisition of another retail multiple and the integration of both operations, changes were made in their supply base. These changes affected our sales to this customer. Going forward, we are hopeful that the situation with both key customers will improve, as the uncertainties surrounding the changes are resolved.

Cresset Limited

Cresset was acquired in March 2004 and is based in Cork in Ireland. It was established in 1974 as a contract manufacturer of ambient ready meals packed under different packaging formats. Following the acquisition of Cresset, we invested \$10 million in a new CRM

manufacturing plant to develop the CRM market opportunity in Ireland. In 2005, Cresset reported sales of \$19.7 million but suffered a start-up loss of \$6.2 million for the year.

Our rationale for making the investment in Cresset was to develop a platform to produce CRMs for the growing Irish market and later on, to develop supply opportunities in the Continental European market for CRMs. Following the completion of the CRM plant in October 2004 in Cresset, we secured our first major Irish retail customer and launched a range of own label CRMs for them. However, we took a longer time than expected to secure the second major retail customer, and consequently, we suffered substantial losses due to the fixed overhead costs of the new CRM plant. In the second half of 2005, we succeeded in securing our second major retail customer and launched a range of own-label CRMs for them in September 2005. As a result, our losses have narrowed. We are working on securing our third major retail customer and are hopeful of achieving this in the first half of 2006. Meanwhile, we are also developing niche opportunities for ambient ready meals.

• China

China is another region that we have focused on for growth opportunities under our internationalisation strategy. As China's economy grows and living standards improve, we see opportunities for food products that are developed to suit local consumer tastes while addressing changing lifestyle needs and aspirations of the Chinese consumer. 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. SSTFI have, in these last two years, extended its product ranges into frozen ready meals and meal accompaniments. In addition to organic growth through our Shanghai operation, 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 interested in include meat processing, convenience food manufacturing and food distribution.

Shanghai ST Food Industries Co Ltd

In 2005, SSTFI had a total turnover of \$7.4 million, up \$2.9 million compared to the year before. This was mainly due to an increase in exports and the sales of frozen ready meals to the food service sector, which is a new business started towards the end of 2004. Meanwhile, the lingering Avian Flu epidemic in the East Asian region continued to have an adverse impact on the sales of our value-added frozen chicken products during the year. A loss of \$0.9 million was incurred in 2005, though this loss included a \$0.3 million under-accrual of supermarket expenses relating to 2004.

The operating environment in China is highly competitive with many producers using low selling prices as the basis of competition. While our Farmpride (金手指) brand of value-added chicken products has been able to maintain its position in the retail market, particularly in Shanghai, we have continued to identify and develop new products and new market spaces. Using Insead's Value Innovation methodology to search out new growth opportunities, we developed and launched Noodle Mate (营养伴侣) in February 2005. Noodle Mate adds nutritious and wholesome protein and vegetables in a sauce to instant noodles to make it a complete and tasty meal. The range has been developed to suit the Chinese palate, and the product is packed in a retort pouch that is convenient to handle and use. Initial response has been mixed, and we continue to fine-tune the product offering, pricing and distribution channels.

We have also successfully developed and marketed to the Chinese food service market a new range of frozen ready meals. The frozen ready meals are easy to heat and serve, and are particularly attractive to lifestyle chain restaurants where space is a premium in the locations they operate in. In addition, these ready meals allow the restaurant chain to expand rapidly without having to worry about finding sufficient skilled chefs and maintaining a consistent standard across all their stores. Our strong product development capabilities, strict hygiene standards and high level of customer service ensures that the restaurants have a reliable supply of ready meals with recipes that are regularly updated.

• Australia

In Australia, we have a 51 per cent and a 50 per cent stake respectively in two companies that operate in the seafood industry. One is Urangan Fisheries (where we have a 51 per cent stake), 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 primarily in the Australian market, while some are exported, particularly to East Asian countries like Taiwan and Japan. Besides the seafood businesses, we have a wholly-owned subsidiary, PIQ, which provides facilities management



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services. PIQ's contract for the provision of Total Logistics Support for a key customer has been extended for another three years from August 2005. Total turnover for the year for our Australian operations was \$36.3 million, an increase of \$4.8 million or 15.2 per cent compared to the year before. Profit before tax was \$3.2 million, an improvement of \$2.5 million over the year before.

Abattoir and Hog Auction

The Abattoir operation in Singapore provides pig slaughter services, and derives its income from the provision of these services. The Hog Auction market conducts daily auctions of live pigs and charges a fee for each pig auctioned. The auction process offers a transparent system of buying and selling live pigs in the auction market in Singapore. In 2005, total revenues for the Abattoir and Hog Auction businesses increased \$0.9 million or 4.6 per cent to \$21.0 million as a result of higher slaughter and auction numbers. Profit before tax was \$6.8 million, an increase of \$0.5 million or 8.7 per cent compared to the year before.

Presently, Singapore has only one approved source for live pigs, and this 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 seek ways to reduce cost without compromising on our high service standards.

In 2005, the daily average number of pigs slaughtered at the abattoir was 1,007 pigs while the daily average number of pigs auctioned was 932 pigs. In comparison, a daily average of 997 pigs were slaughtered and a daily average of 896 pigs were auctioned in 2004. Looking ahead, the level of supply of live pigs from the current single source in Bulan will continue to determine the level of activity in our Abattoir and Hog Auction businesses.

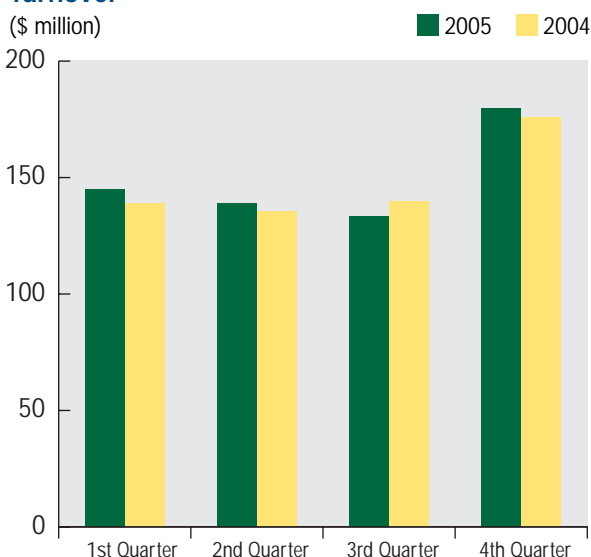
Financial Review

Quarterly Financial Highlights

\$ million	2005					Full Year	2004 (restated)				Full Year
	First	Second	Third	Fourth	First		Second	Third	Fourth		
Turnover	144.8	139.1	133.3	179.9	597.1	138.8	135.6	139.8	175.9	590.1	
Profit before tax*	13.2	9.6	7.6	20.0	50.4	12.3	8.4	9.7	17.3	47.7	

* Before Joint Venture Results

Turnover



Turnover

Turnover for FY 2005 increased \$7.0 million or 1.2 per cent over FY 2004.

Turnover from our overseas subsidiaries increased 4.4 per cent during the year to \$358.4 million but this was partly offsetted by the lower turnover in Singapore which decreased 3.3 per cent over FY 2004 to \$238.7 million.

Singapore

Food catering revenues for FY 2005 were 10.0 per cent lower than FY 2004 being impacted by the implementation of the 5-day work week and the reduction in full-time National Service period by the Singapore Armed Forces from October 2004 and January 2005 respectively. Food Distribution sales were comparable with FY 2004 although the mix of customers has changed. Sales to major supermarkets and government institutions continued to decline while sales to the food service sector and small supermarkets were higher. Abattoir and Hog Auction revenues for FY 2005 were higher than FY 2004 by \$0.9 million or 4.6 per cent.

Profit Before Tax



Overseas

Sales in the UK/Europe increased 2.4 per cent over FY 2004 to \$314.6 million from \$307.2 million. In the UK, sales for Daniels grew 10.8 per cent to \$198.0 million. Daniels' core categories of soup, drinks and prepared fruits did exceedingly well growing by 15 per cent, 8 per cent and 74 per cent respectively. ICL on the other hand, had a difficult year as a result of the "Sudan-1" food scare, which occurred in early 2005 and had an impact throughout the year. This was compounded by the competitive pressures in the UK retail sector which was more keenly felt by some of the customers that ICL services. Sales for ICL declined 12.5 per cent over FY 2004. In the Republic of Ireland, Cresset, acquired in March 2004, reported sales of \$19.7 million for FY 2005. Cresset's significant increase in chilled ready meals sales only came about in 4Q2005, following the acquisition of a second key customer in September 2005.

Operations and Financial Review

EBITDA and Cash Flows

\$ million	2005	2004
EBITDA	73.2	70.5
Net Cash From Operations	49.9	56.9
Net Cash Used In Investing Activities	(13.2)	(52.6)
Net Cash (Used In) / From Financing Activities	(33.6)	1.2
Cash and Cash Equivalents At Beginning Of The Year	15.7	10.2
Cash and Cash Equivalents At End Of The Year	18.8	15.7

Sales in Australia at \$36.3 million were 15.2 per cent higher than FY 2004 while sales in the People's Republic of China ("PRC") was higher by \$2.9 million or 65.0 per cent.

On a geographical basis, overseas turnover now accounts for 60.0 per cent of Group turnover (\$358.4 million) versus 58.2 per cent in FY 2004 (\$343.2 million).

Profits

Profit before tax ("PBT") for FY 2005 was 5.6 per cent higher than FY 2004. The year's results included \$6.2 million of start-up losses in Cresset. PBT margin at 8.4 per cent was higher than FY 2004's 8.0 per cent.

Singapore

In Singapore, despite the 3.3 per cent decline in turnover, the combined Food Preparation and Food Distribution profits were 12.8 per cent higher as a result of lower operating expenses helped by the release of provisions. Abattoir and Auction profits were higher by \$0.5 million or 8.7 per cent compared with FY 2004 due to higher throughput at the abattoir and hog auction market.

Overseas

Profits from overseas operations registered a decrease of \$1.3 million (or 8.9 per cent), as a result of the \$6.2 million loss from Cresset. Excluding this start-up loss, profits from overseas operations would have reported a \$2.8 million (or 17.1 per cent) increase over FY 2004. In the UK, Daniels' profit increased 31.0 per cent to \$14.1 million on the back of a 13 per cent growth in sales. Daniels' core categories of soup, drinks and prepared fruits however, grew 22 per cent over FY 2004. Profit for ICL slipped 45.9 per cent due to lower sales. The Australian subsidiaries reported higher profits of \$3.2 million compared to a profit of \$0.7 million for FY 2004. China's operations reported a loss of \$0.9 million which included \$0.3 million of under-accrual of expenses relating to FY 2004.

On a geographical basis, overseas operations contributed 26.4 per cent to Group profits for FY 2005 compared to FY 2004's 30.6 per cent.

EBITDA and Cash Flows

The Group achieved an EBITDA of \$73.2 million for FY 2005, an increase of 3.8 per cent over FY 2004's \$70.5 million. EBITDA from Singapore operations was \$41.4 million for FY 2005 (compared with \$38.4 million for FY 2004), forming 56.5 per cent of Group EBITDA. EBITDA from overseas operations decreased marginally to \$31.8 million in FY 2005 from \$32.1 million in FY 2004.

Cash flows generated from operations for the Group were lower at \$49.9 million (FY 2004: \$56.9 million) after final payments to creditors for the high level of capital expenditures undertaken in 2004. Capital expenditures during the year were significantly lower at \$14.1 million (FY 2004: \$49.2 million).

Investments and Capital Expenditures

No acquisitions or divestments were made during the year.

During the year, Daniels invested \$10.9 million in incremental factory upgrades and improvements which included a new packing line at the prepared fruit factory to improve the efficiency of its prepared fruit packing operations.

Elsewhere, replacement capital expenditures were minimal.

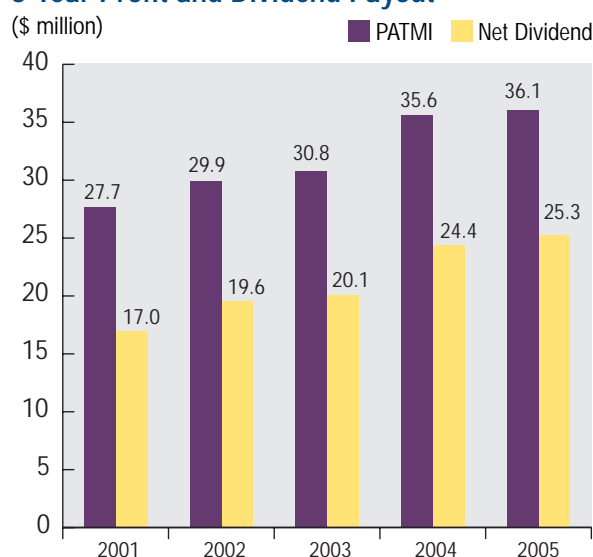
Dividends

The Directors are pleased to propose for approval by shareholders a final dividend of 4.0 cents (FY 2004: final dividend 4.0 cents) less tax of 20 per cent, in respect of the financial year ended 31 December 2005. Subject to the approval of shareholders at the coming Annual General

Meeting, this is scheduled to be paid on 8 June 2006. This brings the total gross dividend in respect of financial year ended 31 December 2005 to 6.2 cents (FY 2004: 6.0 cents) after taking into account the 2.2 cents interim dividend paid on 25 January 2006.

The total dividend pay-out in respect of FY 2005 is approximately \$25.3 million (FY 2004: \$24.4 million), representing a payout of 70 per cent (FY 2004: 68 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 the Group's cash needs.

5-Year Profit and Dividend Payout



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, acquisition of new capabilities, and acquisition of business entities or operating assets to accelerate growth.

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 risk parameters. All major investments have to be supported by Senior Management and require Board of Directors' 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 of credit customers and credit exposures are monitored on an ongoing basis. Credit risks are also mitigated by credit insurances wherever necessary or applicable.

Interest Rate Risk

The Group's exposure to changes in interest rates relates primarily to the Group's debt obligations. Out of the \$16.0 million of Singapore Dollar debt, 44 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 2005, about 46 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 a major portion of its trade payables denominated in foreign currencies. The Group also hedges a major portion of its foreign currency exposure in respect of committed purchases.

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.

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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 Group earnings.

Based on outstanding loans at 31 December 2005, it is estimated that a general increase of one percentage point in interest rate would decrease the Group's profit before tax by approximately \$613,000.

Based on the level of foreign currency purchases and the level of overseas profit in FY 2005, 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 \$813,000.

Net Gearing and Interest Cover

Due to lower requirements for funds during the year, the Group has reduced its borrowing by \$11.6 million during the year. This has brought the Group's total debt from \$67.1 million as at the end of 2004 to \$55.5 million as at the end of 2005.

The Group's Debt to Equity ratio stood at 0.4 at the end of 2005 versus 0.5 at the end of 2004.

Interest cover for the year was 16.1 times. This is lower than FY 2004's 21.0 times due to higher interest charges as a result of higher borrowing costs during the year.

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 lower WACC of 6.3 per cent versus FY 2004's 7.2 per cent, Capital Charge increased for the year due to higher Average EVA Capital employed as a result of higher retained earnings and higher average debt levels during the year. A lower Net Operating Profit After Tax and higher EVA Capital resulted in the Group achieving a lower EVA Spread (Return on EVA Capital less WACC on EVA Capital) of 12.2 per cent for the year (FY 2004: 15.2 per cent).

EVA created during the year was \$26.3 million versus \$27.9 million in FY 2004.

Prospects

Singapore

Food Distribution will continue to focus on growing sales to the food service sector, ship supplies and exports. The outlook for Food Distribution is competitive in its traditional areas, as bigger supermarkets move towards importing directly for their needs, while supplies to the Government Institutions has become unattractive to service.

Food Catering looks forward to higher revenues in FY 2006 with its key customer as the intake of National Service enlistees is expected to increase from the second half of 2006. The outlook for Food Catering in Singapore is thus expected to be good in FY 2006.

Abattoir and Hog Auction operations are expected to be weaker in FY 2006.

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 categories of soup, drinks and prepared fruit. The investments in new factories and expanded facilities in 2004 will provide the base for this growth and 2006 will see better utilisation of capacities as new own label businesses have been won in each of these core categories. Also, with effect from 1 January 2006, the reporting lines for the UK/Europe operations have been restructured, with all operations under a single management team. With this new single management structure, the Group looks forward to benefit from synergies from sales and marketing, procurement and better utilisation of assets across the UK/Europe operations.

ICL continues to operate in a highly competitive own label market in the UK chilled ready meals category. After a disappointing year in FY 2005, ICL expects to deliver growth in FY 2006 and should benefit from the new management structure put in place. Cresset targets to acquire a third key customer by mid-2006 and would be able to be profitable if this comes about. The outlook for Cresset is for better performance compared to FY 2005.

The Group's operations in Australia and China are unlikely to contribute significantly to Group results in the near future. The Group continues to actively seek strategic alliances, joint-ventures and acquisitions to grow meaningfully in these regions.

Based on current prospects, the outlook for FY 2006 is for earnings to be higher than that for FY 2005.