

CEO's Message



"...our successes challenge us to do more, better, and faster."

Roger Yeo Kok Tong (CEO)

Change and Continuity

The theme of Change and Continuity in this Annual Report reflects well the state of play that I see laid out before the Group. It also captures the essence of the challenges I face as the incoming CEO.

We closed off 2006 weaker in profits but still profitable. The Group has done some things right, and seen some setbacks, but overall, the key question is what these developments mean to the future of the Group and our directions. On the one hand, our successes challenge us to do more, better, and faster. On the other, our weaknesses challenge us to learn, move forward and improve. In short, we are impelled to change and adapt, whether in the face of favourable or inclement markets.

I will use this message, my maiden discussion of our operating performance, to share with you our thoughts on 2006 operations, lessons learnt, and implications for the future.

UK/Europe Operations

Over the past several years, the Group has chosen to direct the bulk of its investment activities and capital expenditure spending in the UK and Ireland, with initial funding coming largely from Singapore. We have had varying degrees of success and in the main, are happy with the results to date.

International Cuisine Limited

After a difficult 2005 (Sudan 1 food scare), International Cuisine Limited ("ICL"), our earliest investment in the UK, recovered in 2006 to pre-scare level profitability at £1.4 million, after tax. Barring external shocks, this is a fairly stable business. The team has a demonstrated commitment never to let their customers down, and has been rewarded with steady volumes from the demand side, leading to efficient capacity utilisation. In terms of investment returns, ICL delivered 14 per cent Return On Capital Employed ("ROCE") in 2006. Our policy over the short term is to at least replace production assets.

Daniels Chilled Foods

Daniels Chilled Foods ("Daniels") is an operation the Group acquired in late 2002, and from a loss-making position at the time we acquired it, the business was turned around in 2003. It has since continued to come good and its profit level and trends exhibit the features of a successful investment. The ROCE achieved by



Daniels in 2006 is 14 per cent. Management feels that as we do an end-run on the full potential of this business, we ought to be getting to ROCE rates in the high 20's.

Daniels has three significant businesses. In the freshly-squeezed orange juice business, we have a major share of the food service market, giving us economic scale. From this firm ground in the food service sector, we have begun to break out into the wider retail sector with new product ideas and leveraging from our available capacity.

The prepared fruit business is short shelf-life and run on an OEM model where we are effectively the back-end operation of our retail customers. It has grown on acquisition of additional business in 2006, and is supported by our keen knowledge of fruits and consumer trends. Going forward, we need to ensure that we have successfully absorbed the learnings and benefits of the growth of this business.

Undoubtedly, the main driver and value in our Daniels operation lies in the New Covent Garden brand in the fresh chilled soup category. This category is still growing

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at above 10 per cent per annum, and our market share is stable at about 50 per cent. The consumer awareness, trial, usage and adoption metrics behind this brand lead us to believe that we have yet to fully exploit the revenue potential for this brand.

While we will continue to explore the ways in which we can stretch this brand's equity into adjacent categories eg. in Risotto and Porridge, the watchword for the team is focus. In 2006, we lifted marketing spend levels significantly, and in 2007, we will continue with further investment in the brand's equity.

Farmhouse Fare Limited

In addition, we chose to reinforce this marketing strength in 2006 via the acquisition of the Farmhouse Fare Limited ("Farmhouse Fare") business in October. Farmhouse Fare has a young brand in a growing premium chilled desserts category, and it has the potential for further development and growth.

Beyond 2007, we are asking the team to look at expansion into adjacent markets.

Cresset Limited

Our critical problem is Cresset Limited ("Cresset"). We invested in this company in 2004 as a platform to develop the chilled ready meals ("CRM") business in Europe, using ICL's CRM capabilities. However, the company has continued to lose money since our purchase in 2004. Three main factors have led to this state of affairs. Firstly, the ambient business, which was making a positive contribution, turned sub-scale as we lost one major customer while the remaining one reduced volumes significantly. Secondly, inefficient start-up and production issues negatively affected gross margins in the CRM and Soup production lines. Thirdly, CRM sales into the Irish markets, while growing, are below planned levels.

Cresset narrowed its loss in 2006. In the second half of 2006, we injected orders from our UK/Europe business on specific CRM and chilled soup skus. This added critical mass in operations, but brought about improvements only a little faster than we were losing off the ambient side of the business. Our clear aim in 2007 is to grow Cresset's customer relations and better manage production efficiency to yield a quick path to breakeven.

Behind the business, our customer, our production and our operating issues stand our people - management and craftsmen.

Management

In 2006, we progressively integrated our business teams in UK/Europe under the leadership of Rob Burnett. By the end of 2006, both ICL (January) and Cresset (September) reported directly into Rob. Going forward, this move will give us better customer



servicing efficiency, unitary leadership and purchasing and production leverage. The sterling results we observe in the UK are a credit to Rob who, together with his team, is clear, decisive and knowledgeable. With the acquisition of Farmhouse Fare, we also are fortunate to have added to our management team Helen Colley who will add her own flair and clarity of vision to our business in the UK/Europe. Indeed, every time I visit Rob and his team, my estimation of the worth of our UK/Europe businesses improves.

Beyond the management team, any casual observer of our business will no doubt pay tribute to the many different craftsmen and artisans who add their personal touches to the food products we sell. I wish to thank all of these members of our team for adding a bit of their spirit into the magic in our offerings.

Finally, with climatic turmoil and uncertainty in food crops, our major challenge in 2007 will be to remain ahead of the curve in our purchasing practices and sources.

Singapore Operations

The Singapore business is the font of cash from which we funded and seeded our overseas expansion.

Food Distribution

Our Food Distribution business lost 7 per cent of sales in 2006 versus prior year that led to a larger 33 per cent decline in PBT. This is directly traceable to the loss of the agency for a meat supplier (of over 10 years' standing) in May and an ensuing disruption in continuity of supplies. Nevertheless this business is highly efficient, delivering 20 per cent ROCE despite these setbacks.

In the latter half of 2006, we engaged new sources and restored flow-through in our sales pipeline. Given these levels of returns, management is motivated to expand the scale. We have an estimated 10 per cent plus share of total meat proteins imported into Singapore, and we sit on one of the largest and best cold chain setups in the market. We will look to expand these activities via organic development or otherwise. In 2007, this division will focus on its core strength, and in so doing, convert our scale into a competitive advantage.

On the customer side, we continue to engage with major customers and partners, and will look to add value to our customers by adding a service dimension to our product offering. As an example, in January we began shipping tray packed beef cuts to a major customer.

Food Catering

Our Food Catering division is fairly stable in revenue terms and offers us an adequate rate of return. We observe that the pattern of operations is such that the division was left with several key assets underutilized, and one theme for this team is to find new opportunities with these assets and secure new customers. For example, as out-of-home meal consumption continues to grow in Singapore, and with the development of the MICE market, we see ourselves as being a key player in catering.

I am happy with the state of co-operation and relationships with our key customers in this division. Moving forward, we are reviewing options to de-concentrate profits amongst different customer segments whilst safeguarding the long-term interests of our customers.

In 2005, we reported initial sales of our retort pouch products to a customer in the Middle East. In 2006, it reached \$3 million in value. Beyond the initial trial period, we are looking to convert this to a mainstream on-going profit stream.

Abattoir and Hog Auction

The Abattoir and Hog Auction Market is purely driven by scale. That scale was directly challenged when supply side short-falls led immediately to higher pork prices in wet markets and lower through-put through this division's fixed cost operation. Our ROCE was low at 8 per cent.

We will attempt to engage the Bulan farm constructively to increase pig supplies, something which improved husbandry practices should easily yield. Meanwhile, we will look to relieve the supply shortfall through incentivising another source of supply should such a move prove practical.

Challenges & Opportunities

SFI's businesses in Singapore participate in different parts of the food value chain. Management's view is that opportunities exist for further growth. The overall food market at consumer prices is well over \$8 billion, and our participation level is significant but hardly optimized. The platforms and scale that we have are useful but not yet dominant. This is our work in 2007 - to combine, grow and add to these platforms and in so doing, create a competitive advantage for ourselves.



Retort Sterilisation

Peter Tay, after 17 years of service, stepped down in November 2006. The team he left behind remains committed to the challenge of building on his legacy.

In Singapore, SFI has a well-developed performance-driven compensation structure and a highly engaged team. The average service length is nine years. Over 50 per cent of our workforce is mature. So it is clear that SFI is pretty unique in terms of this corporate memory and the loyalty of its people. Our challenge is to direct these positives to the changes we need to make in 2007 and beyond.

Other Overseas Operations

China

China, after 11 years of operation, is still a marginal business. We have found some recent traction in supplying frozen ready meals to quick service restaurants, and as a result, they reported a small profit in 2006. However, relative to the potential in the markets we serve, we are sub-scale. We will look to remodel this business and sow the seeds for a different direction in 2007.

Australia

As for Australia, we will exit from the unprofitable investment in Schulz Fisheries by 2Q2007. We will review viability in Urangan and work out an exit programme. For the duration of the support from our customers, PIQ will continue to operate.

Overall

Going forward, our investment approach will be to invest our free cash in adjacencies where we can reinforce a strength or create a new strength. With each operation we adopt, we will seek to make both a funding and an operating difference that will enhance the Group's performance and shareholder value in the long run.

Roger Yeo Kok Tong
CEO

