

Chairman's Message



"...we have a good platform from which to improve our performance in 2007."

Tan Yam Pin (Chairman)

To Our Shareholders,

The year in review was a difficult one. We had to contend with a number of adverse factors such as the substantial reduction in live pig supply from Bulan, a flat demand in the Singapore market, and slow growth in chilled ready meals ("CRM") demand in the Irish market, all of which had an impact on the year's results.

These notwithstanding, the SFI Group achieved a higher turnover of \$636.9 million, which is an increase of 6.7 per cent over 2005, driven mainly by the growth in our UK/Europe operations. However, attributable profit was 16.3 per cent lower at \$30.2 million in 2006. Overall, the underlying operations remained stable with a strong cash flow, and we have a good platform from which to improve our performance in 2007.

Dividends

For FY 2006, the Board of Directors declared an interim gross dividend of 2.2 cents per share (net dividend of 1.76 cents per share) in October 2006. This was paid on 25 January 2007. With this payment, we have fully utilised our Section 44 balance.

The Board of Directors recommends, for shareholders' approval, a final tax-exempt (one-tier tax) net dividend of 3.2 cents per share. Together with the interim dividend paid out in January 2007, this will bring the total net dividend to 4.96 cents per share for 2006, and is similar to the net dividend paid for 2005. The total dividend payout of \$25.5 million will represent 84.4 per cent of Profit after tax and minority interests for the year.

Overview

Overseas

Overseas operations continued to be the major contributor to growth in 2006 and now account for 64.6 per cent of Group turnover and 47.3 per cent of Group pre-tax profits. In particular, UK operations led the growth. Daniels Chilled Foods ("Daniels") turnover grew 17.2 per cent to \$231.8 million from strong sales of fresh soup under the New Covent Garden brand, fresh drinks under the Johnsons



brand, and fresh prepared cut fruits. At the pre-tax level, profits grew 26.9 per cent to \$17.9 million.

In 2006, Daniels acquired Farmhouse Fare Limited ("Farmhouse Fare"), a producer of premium traditional British puddings and desserts under the Farmhouse Fare brand. The acquisition will add to our portfolio of brands and open up new opportunities for the company in a growing chilled food product category in the UK.

International Cuisine Limited ("ICL") had a much-improved year in 2006. ICL's sales grew by 13.0 per cent to \$109.7 million, and profit before tax grew by 93.0 per cent to \$6.0 million. However, our Irish subsidiary, Cresset Ltd ("Cresset"), continued to disappoint and operated at a loss of \$5.4 million.

In China, Shanghai ST Food Industries ("SSTFI") grew its sales by 30.8 per cent to \$9.7 million and achieved a small profit of \$0.1 million (compared to a loss of \$0.9 million in 2005). Australian operations were mixed with Schulz making losses, and our stated intention is to exit the Australian fishing and seafood processing businesses at the appropriate time.

Singapore

In Singapore, Food Distribution sales were 6.9 per cent lower at \$127.1 million and pre-tax profit was 33.1 per cent lower at \$8.2 million. Consumer concern with avian flu affected demand for poultry products in the first half of the year, while in the second half of the year, the loss of a key agency line for poultry products affected our sales. We have since improved our supply sourcing and acquired a new agency in frozen poultry products.

Our catering operations continued to make progress in controlling operating costs and in rationalising unprofitable catering sites in the face of a flat demand. Our efforts in developing exports to the Middle East paid off with our first contract worth \$3 million for the supply of food products to the Middle East market.

The Abattoir and Hog Auction operations saw a decline in pig numbers during the year. This was due to animal husbandry problems at the supply source. The farm situation stabilised towards the end of the year, and the supply of live pigs has improved since then. For the year, the Abattoir and Hog Auction business' revenue fell 19.6 per cent to \$16.9 million, while pre-tax profit fell 55.4 per cent to \$3.0 million.

Outlook

In the UK, our priorities will be on strengthening and growing sales under our own brands in the domestic market, and in Ireland and other European countries. Special attention will be paid to achieving expanded distribution and a higher market share for the newly acquired Farmhouse Fare range of products. We will also focus on turning around the performance of Cresset in Ireland.

In Singapore, our emphasis will be on putting our assets to more productive use. In Food Distribution, more resources and efforts will be invested to acquire new sources of supply. Our aim is to be the market leader in the supply of fresh, chilled and frozen meats within a two-year time frame. In Food Catering, we expect an increase in demand from our key customer. For the Abattoir and Hog Auction business, we expect the increase in pig supply, which began towards the end of 2006, to be sustained in 2007, barring any unforeseen developments.

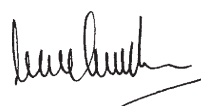
We will continue to look at acquisition opportunities where they fit in with our core competencies. The fundamentals of the Group's business remain sound, and prospects for the longer term are promising.

Appreciation

During the year, there were a number of changes in the Board's composition. Mr Peter Tay Buan Huat stepped down from the Board on 1 September 2006 and as President and Chief Executive Officer on 30 November 2006. On behalf of the Board and Management of the company, I wish to thank him for his service to the company over the last 17 years. I would also like to thank Mr Chow Kok Kee and Mr Jackson Tang Yew Kay who both stepped down from the Board during the year.

We warmly welcome Mr Roger Yeo Kok Tong who joined the Board on 1 September 2006 and as Chief Executive Officer from 1 December 2006.

On behalf of the Board, I would like to thank all our shareholders, customers, unions and staff for their strong and continuing support in the past year.



Tan Yam Pin
Chairman

