

CEO'S MESSAGE

SUBSTANCE AND SUSTAINABILITY

In 2006, when I assumed the role of SFI's CEO, my concerns were with achieving strategic and operational clarity on the various companies within SFI. The realisation was that the constituent business units displayed little operational integration, which meant that in trying to weave together any strategic competitive advantages, we were more apt to see our efforts and results at unit level rather than corporate level.

Going forward, we see our businesses as increasingly being built around 2 core regions; Singapore and UK/Europe. Our task is to focus the strategic elements of our business model and the resources at our command in order to correctly identify and nurture the substance of our competitiveness, and in so doing, cast in stone the sustainability of our future earnings.

This message is part of an on-going dialogue to help shareholders understand the nature of this Group and its underlying qualities.

In this instance, my message will also carry the contribution of our managers immediately below the visible layer at the top, the intent being to demonstrate that we have and are continuing to develop the depth of people who can sustain our performance.

SINGAPORE

The contribution that Singapore can make in profits is higher than its contribution in sales and assets employed suggest. Its particular mix of businesses is also unique and in that it is significantly isolated from the risks and vagaries of the commercial markets. It therefore behoves that management should spend sufficient focus and attention to the restoration of its profit performance and look for strategic opportunities to secure the growth of the business.



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Singapore's performance in 2007 was a performance of 2 halves. In 1H2007, sales were down 4.2 per cent while pre-tax profits were up by just 2.9 per cent (versus prior year). In 2H2007 sales reversed to plus 24.3 per cent and profits up by 22.1 per cent (for the underlying business).

One other note as we address the performance of specific units in Singapore – in May 2007, management took a decision to change the basis of allocation of overheads between divisions in order to better reflect usage of shared resources. This should be taken into account in considering the PBT for each division. For Singapore as a whole, it has zero impact. This work is ongoing and by the middle of 2008, we should have enough data points to arrive at a more robust allocation basis.

Abattoir and Auctions

The ROCE on this business is 18.0 per cent.

Volumes increased in 2007 but were still 3 per cent below 2004 levels and we estimate it to be about 15 per cent behind demand. There is therefore a need to continue dialogue with current suppliers and potential new suppliers to increase supply in order to keep market prices stable.

Profits improved in 2007 despite higher energy costs. This increase came about through a combination of higher volumes, pricing and the iron-fist discipline that Yuen Hing Meng and his team have brought to this operation. In 2007, this Division brought back Bobby Chew whose return has brought managerial depth to the operation.

Food Catering

The ROCE in this Division has been and continues to be adequate. The value of this business to the Group is that its revenues are linked to its role and not to commercial markets. It affords us a core of earnings that will not bend in inclement market conditions.

In 2007, we searched for more revenue streams for this business and the prospects of these becoming significant revenue contributors are good. During the year we renewed the supply contract for field rations to the UAE customer by a further 3 years. This "produce and export" business should be seen as a preamble to local operations at consuming markets.

Poon Choon Liang has been running this Division well, and I am particularly grateful for the high receptivity ratings we continue to receive. He has also been a fount of managerial strength and advice as we begin to look beyond our core roles towards other strategic projects. Management depth in this Division has been well maintained and the nature of our people here represents a source of execution strength as we stretch our role.

Food Distribution

Sales in this division was 10.2 per cent lower than prior year in 1H2007 but 30.8 per cent higher in 2H2007, to end the year 8.6 per cent above 2006. This is the highest turnover in the last 4 years. Its ROCE in 2007 was 3.6 per cent.

In 2007, we lost this Division's General Manager Wee Liang Pin in May. With regret, I also lost its DGM Neo Wei Ming in October. In late 2005 and early 2006 this Division's purchasing department also saw a 100 per cent turnover of middle managers. From May 2007 to October 2007, I oversaw this Division directly, acting as its GM. This allowed me to reshape this Division at the operating and strategic level.



I asked Johnson Oh to personally lead the charge on demonstrating our competitive ability in the local market. Sales in the second half were 30.8 per cent higher than prior year and most satisfyingly, 100 per cent of the sales growth came from our identified core products of imported meats. He has also recruited Leo Lee to help us run our Food Service Department and during his short stint to date with us, Leo has increased distribution and (with the quality of those new customers) also increased GP margins. These improvements represent a return to norm rather than a new peak, and our people have plans to operationalise a breakout in 2008.

In June 2007, as part of our Pork strategy, we asked Wong Fock Nam to take personal charge of our cutting and deboning operations. The margin improvement that we see in our chilled Pork business is driven by the yield and quality improvements that he has brought to that operation. I also wish to note the launch of 'Tenderfresh' Pork in selected supermarket locations, which was the first branded offer of Indonesian Pork available outside of wet markets. Five months after launch, it already contributes 5 per cent to Divisional GP with a GP margin double that of its Division. Christina Chang is responsible for its launch and continued growth.

I asked Ho Shau Foong to return from China to manage our Export and Ship Supplies business. In 2007 he has reduced our credit exposures, improved managerial controls and helped me quit aged inventory. Going forward, he will work off this more stable platform to increase sales and profitability. One major task is a domestic entry into Vietnam.

In November 2007, we recruited Alvin Chua to oversee this Division. Our structural work in this Division has now commenced and it will be Alvin's main task to take the lead in this Division, build it at the mid-management level and institutionalise the processes and systems that will enable faster growth.

UK/EUROPE

The near-term tasks in this core market were (a) to entrench the current sources of profit, (b) to augment these with the integration of Farmhouse Fare, and (c) turn around the loss-making Irish operation.

To these tasks, Rob Burnett and his management team have brought much energy, knowledge and imagination. Although profit delivery has in the main been reasonable, the markets, particularly on the supply side, have not been as helpful in the year under review.

Over the longer term, there are a number of strategic building blocks that will be further enhanced to support the growth and returns we target. One such strategic building block is our portfolio of brands, of which the New Covent Garden brand stands out. Another is to invest in productive assets ahead of the demand curve so that we are able to respond in a timely manner to demand growth. We will also continue to look into expansion into adjacent markets, in product and in geography.

In 2007, we looked at a number of acquisition possibilities in Europe, but there were none that were glaring "must do's". But we will continue to look, explore and be part of the deal flow. Meanwhile our European expansion will be based on the establishment of an export business out of the UK. But Europe is a large place and our game plan for entry is aimed at defensible and sustainable profits.

I mentioned in the 2006 CEO message that UK business has continued to come good and its profit level and trends exhibit the features of a valuable investment. This continues to be so.

Daniels Chilled Foods

DCF, during the year, lifted its profits and delivered an ROCE of 16.7 per cent. (2006: 15.3 per cent) While short of our individual target, the ROCE is moving in the right direction.

Rob Burnett continues to give this company his personal attention and Daniels had an excellent year, with increased sales in all its 3 core categories (Soup – 10 per cent, Juice – 27 per cent and Prepared Fruits – 9 per cent). The achievements that Daniels has had were many during the year, but I take pleasure in highlighting a few that demonstrates both the underlying strengths of the business and the quality of our management team.

In Soups, New Covent Garden® initiated its first ever TV sponsorship towards the end of summer. We are justifiably proud of it and have put it on our website for those who care to share our fondness. The results were a record high season sales and a record market share, despite the entry of a major competitor into this space. Nigel Parrot led this marketing effort.

In Juice, we had to tackle the (good) problems associated with our sales growth, which were that of waste-water treatment and increased raw material costs. Despite these, Gross Profit dilution for this core category was kept to a minimum. For this we can thank the guidance of Jim Watson.

In Prepared Fruits, we encountered intermittent inefficiencies at production and service levels. Timely action by the operations team in identifying the problems and putting in corrective steps helped to mitigate the situation. In this, they were ably advised by Alison Robertson.

Overall, DCF is on track to better things, and our key concerns in the coming year will be the timing and nature of investments to increase production capacity in Soups and in Prepared Fruits.

International Cuisine Limited

ICL, during the year, lifted its profits and delivered an ROCE of 14.3 per cent (2006: 14.4 per cent).

The source of this result was founded on good customer satisfaction and product quality. Tom Weldon has demonstrated the leadership and ability to keep production quality and productivity at a high level in the plant. I am glad to note that ICL was awarded the Professional Engineering Award for People Effectiveness by the UK Institution of Mechanical Engineers in



June 2007. This supply side excellence was married in 2007 with better demand side co-ordination as Mike Cassidy brought his category management expertise to this product area, allowing us to manage this business on a more balanced footing.

Going forward, our management team is working on finding process ideas that will keep us ahead of the pack while our marketing people will continue to look at a branded offering that will allow us to balance production.

Farmhouse Fare

In our first year of owning this business, this unit was profitable and earnings accretive for SFI at PBT level. This despite our decision to take an amortisation for intangibles of \$2 million in 2007. ROCE in 2007 was 19.0 per cent, before the amortisation. Despite exponential cost increases in flour and dairy products, we have managed to softland at reasonable margins.

The programme in 2007 emphasised the expansion of sales and distribution in this unit in order for its excellent products to find scale through Daniel's more mature marketing, logistics and production management systems. In these we have made progress through the year but have not yet reached the end points we intend. Sales grew by 38 per cent and in September 2007, we began advertising the brand in order to establish its national credentials.

Helen Colley's product development work has been, and continues to be, inspiring.

Cresset Limited

Cresset's losses extended in 2007, partially because of one-off charges associated with a strategic exit from the ambient segment.

Rob was asked to supervise this difficult business late 2006. He has brought personal courage and strength in executing our plans for this business. We changed leadership in this business during the year. We decided to exit the ambient business and we have done so. We decided to reduce G&A and we have done so. The situation is that we now have a more focused business on a CRM sector that is growing 25 per cent per annum in Ireland, but the factory remains sub-scale.

The path to breakeven is taking longer than I had estimated it would. We need to bring ourselves to higher sales and to better manage factory efficiencies. The first 6 months of operation in 2008 will determine in my mind the future utility of this business for our overall European plan.

UK/Europe People

While I have attempted to highlight to shareholders the many hands that contribute to our performance in UK/Europe, the resultant product, especially in Chilled Desserts, Prepared Fruits and Chilled Ready Meals, is dependent on the caring hands of our craftsmen that daily add their heart to our products. The business results are testimony to the dedication of our colleagues.

During the year, we lost Mike Faers who was Director of New Product Development in Rob Burnett's team. Happily, we were able to replace from within, and Stacey Howe now has that role.

I am grateful to Rob Burnett and his people. He has displayed leadership, clarity of thinking and panache in execution.

OTHER OVERSEAS OPERATIONS

China

Having taken a look at the operation and after the suspension of exports from China to Singapore, we have downgraded our strategic priority for this business. In June 2007, I asked Chen Xingge to run this operation and our aim is to stabilise this operation, while we look at its long-term viability.

Australia

Our stance remains unchanged. In Schulz, we have confirmed the terms of our exit and are close to completion. In Urangan, we are reviewing our strategic options.

SFI CORPORATE

The SFI Group is able to generate high cash flow relative to its sales levels. Our EBITDA for 2007 is 10.4 per cent of sales (2006: 10.2 per cent).

In UK/Europe our team continues to monitor and look at a pipeline of deals. From Singapore we looked at several deals but walked away from them in 2007 when the prices got too high.

We will bring acquisitions forward only at what we consider is the right price. This management does feel that M&A is a tool for profit growth and not an aim in and of itself. In 2008 we have brought Greg Ng in to oversee our IR and M&A activities. Liu Shih Shin has requested for early retirement, and I would like to thank him for his 13 years of gallant service to the company.

While we wait for our acquisition pipeline to gestate, we will supplement our improvements in place on current businesses with selected greenfield launches of businesses and products. In these we are guided by 3 principles:

- a. we see superior returns in branded or proprietary products*
- b. we can further improve returns on successful products through geographic scaling*
- c. where possible we will seek influence and control over critical supply variables*

In September 2007, we brought Philip Lim on board as COO (Singapore). He has control over our A&A and Food Distribution Division currently as I withdraw from day to day matters. In him, we have a high integrity/high potential manager and our task is to bring him into the commercial world in a phased manner. The process discipline in A&A, and the more intense interaction with markets in Food Distribution are ideal for this purpose.

Finally a word on our Finance Team. Our CFO, Ang Lee Nah, has been a source of strength, wisdom and courage through this past year. She is engaged and fully participative in our operating and strategic decisions. Gurtek Singh, in his role as FC for Singapore, bore the brunt of the efforts to better allocate G&A, improve reporting processes and install cost accounting. Jeremy Hudson has played as CFO in UK/Europe, led the effort on M&A and financial management improvements. In ICL we have David Payne who, for the whole of 2007, was consistently the first to get his reports onto my desk each period.

During the year, we were recognised by various parties in Singapore. The UK Trade and Industry 2007 International Business Award in Singapore was conferred on SFI. We were also recognised for the Best Annual Report in the Mid Cap category under the Singapore 2007 Corporate Awards. And in the UK, Farmhouse Fare won a number of awards for its products, including Gold for its Whisky and Marmalade Pudding under the Great Taste Awards 2007, and was winner of the Grocer Own Label Awards 2007 for our Chocolate Orange Pudding.

Behind each of the key managers we have acknowledged and thanked stands SFI's 2800-strong workforce. Singapore accounts for 1100. Our people are the means through which we execute supply side quality and demand side service. For their efforts in 2007, they have my thanks.

CUSTOMERS AND STAKEHOLDERS

In conclusion, we thank our customers for the partnership in meeting end user needs. Their skills and knowledge ignite our own search for excellence.

We thank the various authorities with whom we have interacted. It has been my pleasure to note the quality of our counter parties as we come into contact with regulators, advisors and customers amongst official ranks.

And finally, shareholders are at the centre of our thoughts. Our actions are driven towards the generation of quality and sustainable returns to shareholders.



ROGER YEO KOK TONG
CEO

29 February 2008