Stronger, Faster, Better.

Qian Hu Corporation Limited Annual Report 2002



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MISSION STATEMENT

We want to create shareholders' value by becoming a world-class ornamental fish and accessories company through innovative and quality products and services.

COMPANY PROFILE

Incorporated in 1998, Qian Hu provides a spectrum of one-stop services including the distribution of over 500 species of ornamental fish from all around the world as well as the manufacture and distribution of a wide range of aquarium accessories, including pet foods and medications. The Group, which has subsidiaries in Malaysia, Thailand and the PRC, also includes the manufacture and distribution of plastic bags into its vertically-integrated business model.

STRONGER, FASTER, BETTER.

Since our listing in November 2000, Qian Hu Corporation Limited has continued its growth path. The compounded annual growth rate of its sales and net profit reached 36.0% and 44.7% respectively from FY2000 to FY2002 – buoyed by consistent, quarter-to-quarter growth of our aquarium and pet accessories and ornamental fish distribution segments.

On our second anniversary of being a public company, Qian Hu leaped to the Singapore Exchange's main board on 11 November 2002 – another significant milestone in our corporate history.

Twice winner of the Securities Investors Association (Singapore)'s Most Transparent Company Award*, and recently-voted second in SESDAQ's Most Admired Company Awards, Qian Hu is becoming an even stronger player in the global ornamental fish industry as it continues to create value for its shareholders. Qian Hu's key revenue drivers – ornamental fish distribution and our accessories businesses – provide consistently strong growth in sales and earnings both on a quarter-to-quarter basis and year-on-year.

- Group turnover: \$62.7 million [↑ 52.0%]
 - Ornamental fish: \$24.0 million [**†** 31.2%]
 - Accessories: \$31.9 million [**†** 91.9%]
 - Plastics: \$6.7 million [**†** 7.1%]
- Profit before tax: \$8.6 million [† 96.4%]
 - Ornamental fish: \$2.4 million [16.9%]
 - Accessories: \$7.3 million [**†** 174.2%]
 - Plastics: \$272,000 [**↓**51.3%]



A single thrust of its tail, the mighty Arowana, or Dragon Fish, is propelled forward.



The anterior fins of a fish keep it in a position of equilibrium, no matter how calm or turbulent the waters.

balan

Qian Hu's business model of being a fully-integrated ornamental fish service provider, focussing on:

- the breeding of Dragon Fish and the distribution of over 500 varieties of ornamental fish
- (2) the manufacture and distribution of aquarium and pet accessories

has provided us the right product mix to leverage on the growth of the ornamental fish industry in the region and beyond. Contributing more than 4% of the global fish market, Qian Hu helps to secure Singapore's position as the ornamental fish capital of the world.



Ce

How to spot an award-winning fish? Look at the brilliance of the eyes, the sheen and colour of its scales.

Qian Hu's policy has always been to achieve the best practices in every area of our business, may it be service quality, business integrity or corporate governance and transparency.

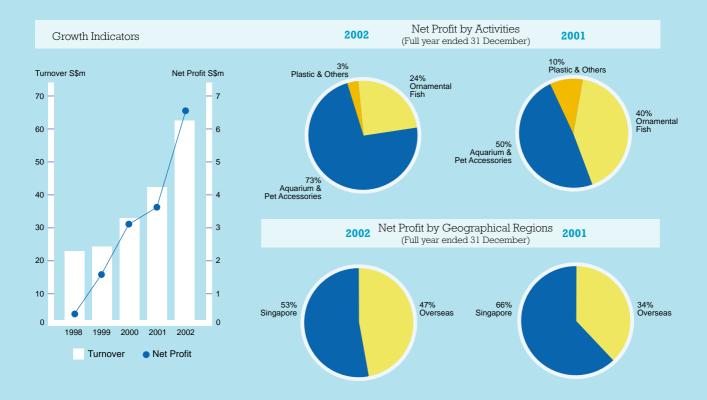
- Topped the list in Total Shareholder
 Return for "Other Services" sector
 (Shareholder Value Survey by Business Times and LEK Consulting)
- Most Transparent Company Award (SESDAQ/Small caps category), Securities Investors Association (Singapore), 2002 and 2001
- Top 3 "Best Small Companies" by Asiamoney (2002/03)
- Most Admired Company in SESDAQ (1st Runner-Up), November 2002
- Highly Commended in Grand Prix for Best Overall Investor Relations Award by IR Asia and Asian Wall Street Journal, 2002
- Best Annual Report Award, 1st Runner-Up (SESDAQ category) 2002
- Singapore Quality Circle
- ISO 9002 and 14001

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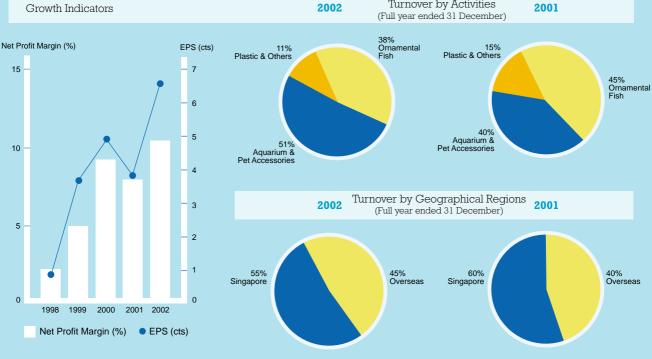
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Financial Highlights



Growth Indicators



Turnover by Activities

Value-Added Statement

	2002 \$'000	2001 \$'000	
Revenue earned	62,693	41,249	
less : Purchase of goods	(45,979)	(30,541)	
Gross value added	16,714	10,708	
Other operating income	653	639	
Exchange (loss) gain	(93)	189	
Share of profit (loss) of associated company	139	(7)	
Total value added	17,413	11,529	
Distribution :			
To employees in salaries and other related costs	6,885	5,643	
To government in corporate and other taxes	2,155	981	
To providers of capital :			
 Interest paid on borrowings from bank 	180	139	
Retained for re-investment and future growth			
– Depreciation and amortisation	1,411	1,176	
 Accumulated profits 	6,547	3,558	
 Minority interest 	(12)	(48)	
Non-production cost and income :			
 Bad debts and provision for doubtful debts 	247	80	
Total distribution	17,413	11,529	

Productivity Data

	2002	2001	
Number of employees	579	218	
Value added per employee (\$'000)	30	53	
Value added per \$ of employment cost	2.53	2.04	
Value added per \$ sales	0.28	0.28	
Value added per \$ of investment in fixed assets	1.29	1.05	

Financial Ratios

	2000	2001	2002
EPS	4.95 cents	3.88 cents	6.58 cents
Return on Equity	22.6%	20.7%	23.5%
Return on Assets	13.6%	12.9%	15.0%
Net Assets per share	16.7 cents	20.8 cents	27.4 cents
Debt/Equity Ratio	0.09	0.11	0.04
Trade Debtors Turnover	59 days	66 days	62 days
Inventory Turnover	69 days	78 days	88 days



Chairman's Message

My Dear Shareholders

Thanks to all of your support, Qian Hu Corporation Limited was transferred to the main board of the Singapore Exchange on 11 November 2002 which happened to coincide with the second anniversary of our public listing.

It has always been part of our corporate mission to increase shareholder value by trading on the main board, thereby attracting more institutional interest in our stock. Earlier in the year, as we responded to the repeated requests from our investors and shareholders to increase the liquidity of our stock, we placed out 10 million new shares in April which not only increased our free float of shares to 25%, but also enabled us to raise new funds for expansion of our overseas operations more aggressively instead of relying on bank borrowings.

The Group, having consistently reported strong fundamentals quarter-to-quarter, has indeed grown from strength to strength for the full year ended 31 December 2002.

Financial Results

Overall, Group turnover grew 52% to \$62.7 million, while net profit attributable to shareholders surged 84% to \$6.6 million.

All of our core business activities experienced growth, due to a bigger customer base in our regional hubs of Singapore, Thailand, Malaysia, and China.

Turnover from our ornamental fish business grew by 31.2% to \$24 million buoyed by increased sales to a growing number of retail outlets in Singapore, including our in-house store in Sungei Tengah Agrotechnology Park. In addition, the Group managed to increase its export of ornamental fish from Singapore and China to more countries around the world. Our accessories manufacturing and distribution business surged nearly 92% to \$31.9 million in sales due to significant improvement of our market share in Malaysia and Thailand. With a 174.2% jump in profit before tax to \$7.3 million, our accessories business was the main profit contributor to the Group. Revenue from plastics and other businesses grew modestly by 7.1% to \$6.7 million as a result of local market competitiveness which was mitigated by the Group's efforts to focus on selling more high-value items and expanding its distribution channels overseas.

Dividend

While it has always been our policy to declare a dividend when we are profitable, we are also mindful that as a growing company, a fine balance has to be struck between retaining cash for expansion purposes, and cash for dividend payouts, depending on the situation and opportunities.

After our FY2001 results were announced, our Directors declared a 6% final gross dividend and issued 1 bonus share for every 10 existing shares. For FY2002, it is our desire to share our success with our shareholders, hence, our Directors have recommended a final gross dividend of 6% per share plus a special dividend of 6% per share, which if approved, will be paid to shareholders on 10 April 2003.

Achieving Broad-based Recognition

It is indeed very encouraging and heartening to receive a pat on the back once in a while from our stakeholders and the public. Besides winning the Most Admired SESDAQ Company award, we received – for the second time – the Most Transparent Company Award (SESDAQ/Small Caps category) from the Securities Investors Association (Singapore) in recognition of our unflinching commitment to corporate governance and transparency.

We are also pleased that our efforts in producing quality annual reports was recognized by the Annual Report Awards committee – comprising the Institute of Certified Public Accountants of Singapore, Securities Investors Association (Singapore), Singapore Institute of Management, Singapore Institute of Directors, Singapore Exchange Limited and The Business Times - and was voted first runner-up in the Best Annual Report Award 2002 (SESDAQ category).

Qian Hu's policy has always been to achieve best practice in our standards of business integrity and transparency for all of our activities, which includes a commitment to the highest standards of corporate governance throughout the Group. This year, we raised the ante in our quest of being more transparent by releasing our FY2002 results fullyaudited on 20 January 2003.

It has been our practice to release our full-year results

within 30 days of our year-end with a combined briefing for media, analysts, fund managers and some members of the investment community.

Qian Hu was also one of the earliest companies to embrace quarterly reporting, way ahead of the public debate about the pros and cons of making such timely reporting mandatory. We have consistently taken the same key messages to dealers, remisiers and clients of major investment houses. Accessibility to the media and key stakeholders in the investment community has become an important feature of Qian Hu's investor relations commitment. Investors can also get regular updates through a dedicated Investors Corner on our website, www.qianhu.com. Our efforts were "highly commended" in the Grand Prix for Best Overall Investor Relations Award organized by IR Asia and Asian Wall Street Journal in Hong Kong.

Increasing shareholder value is one of the values we hold dear to our hearts, besides the continual focus on running our business efficiently. We are heartened that Qian Hu topped the list in Total Shareholder Return (TSR) for the "Other Services" sector in a recent Shareholder Value Survey conducted by Business Times and the global strategic management firm, LEK Consulting, during the 12 months ended 30 June 2002.

We are also elated that Qian Hu topped the Singapore All Equities Index (Sesall) ranking of 313 listed companies.

Corporate Governance

In line with a key recommendation from the Code of Corporate Governance requiring all members of the Audit Committee to be non-executive directors, an additional independent director was appointed on to the Board. In addition, a Nominating Committee and a Remuneration Committee, both consisting of 3 independent directors, were established during the year.

Business Prospects

The future of the Group depends on our ability to extract maximum potential from our overseas network and see them move from gestation to maturity, particularly in the ornamental fish and accessories segments. We are encouraged to learn that in the midst of global economic uncertainties, the ornamental fish industry worldwide has continued to do well, having been ranked as the world's second most popular hobby after photography.

In the current year FY2003, we expect to maintain a healthy growth in our turnover and overall profitability – in our sales of over 500 species and varieties of ornamental fish, as well as a wide range of accessories in Singapore and our export markets of more than 60 countries.

In the past two years, we have significantly expanded our regional distribution network through our overseas subsidiaries in the PRC, Malaysia and Thailand. Fully operational and well-established, our overseas hubs will continue to optimize the sales of ornamental fish, especially the highly-prized Dragon Fish, and accessories in the region. We will also take advantage of the import deregulation of ornamental fishes in Taiwan to further penetrate and build up market presence there and in the PRC.

We announced, in January 2003, the proposed acquisition of Kim Kang Aquaculture Sdn Bhd, a leading Dragon Fish breeder in Batu Pahat, Malaysia, for a consideration of \$7.7 million which was funded 50% in cash, and the balance through the issue of new shares at 96 Singapore cents each. Acquiring Kim Kang, which has the requisite operational capacity, land, infrastructure and brooder stock, will ensure a consistent and reliable supply of Dragon Fish for our overseas subsidiaries as well as new markets such as Taiwan and the PRC. This backward integration is expected to be positive and will help our Group to enjoy better margins and profitability from the higher value-added business of breeding Dragon Fish.

A substantial part of our growth of in the current year will be driven by our overseas operations. We will discuss in greater detail the business prospects for each overseas subsidiary in the "Business Review" section of this annual report.

In line with our commitment to delivering strong returns and value growth to our shareholders, we shall continue to identify and evaluate relevant opportunities for expansion. A case in point is our new associate company, Jin Jien Hsing Enterprises Co Ltd which distributes pet foods in Taiwan.

Special Mentions

This has really been a very exciting year for Qian Hu, and I have all of the colleagues in the Group to thank for their commitment and dedication. We will need to rally together even more as we take another giant leap towards becoming a world-class organisation.

I would also like to thank my fellow Directors for their notable contributions and advice, and to our customers, suppliers, business associates, and most importantly, to you our valued shareholders for your continued support of Qian Hu.

Kenny Yap "The Fish" Executive Chairman & Managing Director

Board of Directors

Kenny Yap Kim Lee Executive Chairman and Managing Director

Mr Kenny Yap is the Executive Chairman and Managing Director of Qian Hu Corporation Limited, the only integrated ornamental fish service provider listed on the main board of the Singapore Exchange.

Through his leadership, vision and passion for the industry, Kenny plays a key role in establishing Singapore as the ornamental fish capital of the world, with Qian Hu accounting for more than 4% of the global fish market. He has a string of awards to his name – Young Chinese Entrepreneur of the Year by Yazhou Zhoukan in 2002, one of the 50 Stars of Asia by Business Week in 2001; the PSB/International Institute of Management's International Management Action Award in 2000, and the Singapore National Youth Award in 1998.

Kenny graduated from Ohio State University (USA) with a 1st Class Honours degree in Business Administration. He currently serves as Secretary to Chong Pang Community Centre Management Committee and the Singapore Aquarium Fish Exporters' Association as well as a member of Ahmad Ibrahim Primary School's advisory committee.

Alvin Yap Ah Seng Deputy Managing Director

Mr Alvin Yap, a founding member of the Group, oversees the Group's aquarium and pet accessories operations in his current capacity as Deputy Managing Director.

Alvin holds a diploma in Mechanical Engineering from Singapore Polytechnic and was the managing partner for Yi Hu Fish Farm Trading from 1988 to 1998. A member of the Aquarium Fish Dealers Association since 1990, Alvin served as its Treasurer in 1992 and 1993. In 2000, Alvin, together with Kenny Yap and Andy Yap, was one of the Top 12 Entrepreneurs of the 12th Rotary-ASME Entrepreneur of the Year as well as a finalist at the 10th Rotary-ASME Entrepreneur of the Year in 1998.

Andy Yap Ah Siong Deputy Managing Director

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Mr Andy Yap, a founding member of the Group, heads the Group's ornamental fish operations as Deputy Managing Director.

Andy holds a diploma in Business Studies from Ngee Ann Polytechnic and was the managing partner for Qian Hu Fish Farm Trading from 1989 to 1998. In 2000, Andy, together with Kenny Yap and Alvin Yap, was one of the Top 12 Entrepreneurs of the 12th Rotary-ASME Entrepreneur of the Year as well as a finalist at the 10th Rotary-ASME Entrepreneur of the Year in 1998.

Chang Weng Leong Independent Director

Appointed in 2000, Chang Weng Leong serves as Qian Hu's Independent Director. He is currently the Principal Consultant of Alchemy Business Consultants, a management consultancy firm. Mr Chang is serving with the Singapore Accreditation Council as an Assessor for its Quality Management System Accreditation Scheme. He is also acting as Assessor, Auditor & Technical Expert for certification bodies and organisations in management system assessments. Mr Chang attained a Masters of Science degree in Mechanical Engineering from the National University of Singapore. He was with SISIR from 1991 to 1994 and from 1994 to 1998, he was a director in SP Consulting International Pte Ltd.

Mr Chang is a registered Senior Auditor with the Singapore Accreditation Council and a Lead Auditor with the Institute of Quality Assurance (IRCA UK). He is also the Evaluator and Verifying Auditor appointed by the Singapore Accreditation Council.

Robson Lee Teck Leng Independent Director

Robson Lee is a partner in Shook Lin & Bok's corporate finance & international finance practice and has been with the firm since 1994. He is also a partner in the firm's China practice, focusing on cross-border corporate transactions in the People's Republic of China.

With a LLB (Hons) from the National University of Singapore, Robson is currently the Chairman of the Audit Committee of

Qian Hu Corporation Limited and Chairman of the Remuneration Committee of Sim Lian Group Limited, both listed on the Main Board of the Singapore Exchange Limited. He runs an active practice advising corporate issuers in a number of industries ranging from high-tech, food and beverage, specialty chemicals and pharmaceuticals, and their underwriters in fund-raising and stock market flotations.

He is also the Secretary of the Board of Governors of the Chinese High School and the College Management Committee of Hwa Chong Junior College, as well as a trustee of the land on which the Chinese High School and Hwa Chong Junior College are situated. He has structured a number of corporate finance transactions and advises public listed companies on securities transactions, cross-border mergers and acquisitions and foreign joint ventures.

Tan Tow Ee Independent Director

Tan Tow Ee was appointed in May 2002 as an Independent Director of Qian Hu Corporation Limited. He is also a member of the Audit Committee.

Mr Tan is currently managing private funds and also provides consultancy services. He has more than 12 years of professional experience working with international corporations where he was managing their sizeable investments. He holds a Honours Degree in Finance from Ohio State University(USA).

Corporate Information

Board of Directors

Kenny Yap Kim Lee (Executive Chairman and Managing Director) Alvin Yap Ah Seng Andy Yap Ah Siong Robson Lee Teck Leng Chang Weng Leong Tan Tow Ee

Company Secretary

Lai Chin Yee

Audit Committee

Robson Lee Teck Leng (Chairman) Chang Weng Leong Tan Tow Ee

Nominating Committee

Tan Tow Ee (Chairman) Robson Lee Teck Leng Chang Weng Leong

Remuneration Committee

Chang Weng Leong (Chairman) Robson Lee Teck Leng Tan Tow Ee

Registered Office

No. 71 Jalan Lekar Singapore 698950 Tel: (65) 6766 7087 Fax: (65) 6766 3995 Website: www.qianhu.com

Share Registrar

M & C Services Private Limited 138 Robinson Road #17-00 The Corporate Office Singapore 068906

Auditors

Ernst and Young 10 Collyer Quay #21-01 Ocean Building Singapore 049315 *Partner-in-Charge* Steven Phan Swee Kim (with effect from financial year ended 31 December 2000)

Principal Bankers

The Development Bank of Singapore Ltd Overseas-Chinese Banking Corporation Limited Malayan Banking Berhard United Overseas Bank Limited

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Key Management



Ms Lai is responsible for the Group's accounting, finance, treasury and tax functions. Prior to joining the Group in May 2000, Ms Lai was an auditor with international accounting firms since 1987. She holds a Bachelor's degree in Accountancy from the National University of Singapore and is a member of the Institute of Certified Public Accountants of Singapore.

Low Eng Hua Group General Manager

Mr Low joined the Group in April 2001, and is responsible for overall management and business development of the Group. He had worked in Engage Electronics (S) Pte Ltd from 1993 to 2001 where he rose through the ranks from Application Engineer to Deputy Operations Manager, and ST Microelectronics Pte Ltd from 1992 to 1993. He holds a Bachelor's degree in Engineering from the National University of Singapore.

Yap Kim Choon Division Head, Wan Hu Division

As one of our founding members, Mr Yap joined the Group in 1988 as head of Wan Hu division. He specializes in the rearing and breeding of Dragon Fish and has helped us win prizes in international competitions.

Thomas Ng Wah Hong Managing Director, Guan Guan Aquarium Sdn Bhd

Prior to joining Guan Guan in 1998, Mr Ng was a director of Guan Guan Industries Sdn Bhd since 1990, and Agemac Verdas (Malaysia) Sdn Bhd from 1996 to 1998. He holds a diploma in Civil Engineering from the Singapore Polytechnic.

Jimmy Tan Boon Kim Managing Director, Thai Qian Hu Company Limited

Prior to his current appointment in Thai Qian Hu, Mr Tan was the head of Daudo division overseeing import and export and wholesale of ornamental fish. He was also the sole proprietor of Daudo Aquarium for 9 years and a partner of Sea Palace Tropical Fish for 6 years.



Alex Chuang General Manager, Guangzhou Wan Jiang Technology Co Ltd

Appointed as the General Manager of the Guangzhou subsidiary in 2000, Mr Chuang, who holds a degree in Economics, is responsible for business development and the day-to-day operations of the company.

Lee Kim Hwat Managing Director, Tat Leng Plastic Pte Ltd

Mr Lee has been overseeing and managing the operations and business development of Tat Leng for more than 10 years, and is responsible for the growth of our plastics business in Singapore.

Teo Boon Hock Manager, Fujian Anxi Qian Long Plastics Private Co Ltd

Mr Teo joined Qian Hu in 2001 as Manager of the Group's plastics manufacturing business in the PRC. Prior to his appointment, he was in charge of quality assurance and the engineering department of a plastic injection molding firm. Mr Teo holds a diploma in Production Technology from the German Singapore Institute.

Tony Yap Keng Huat General Manager, Beijing Qian Yang Aquarium Co Ltd

Mr Yap has been working in the Singapore fish export division since 1989. Currently, as the General Manager of the Beijing subsidiary, Mr Yap oversees the business development and the daily operations of the company.

Viravat Valaisathien General Manager, Thai Qian Hu Company Limited

Mr Valaisathien, a law graduate from St John's University in Thailand, was appointed General Manager of Thai Qian Hu in 2002. He is responsible for the company's purchasing and domestic sales activities as well as its day-to-day operations.



Group Structure

Qian Hu **Corporation Limited**

Qian Hu Fish Farm Trading Yi Hu Fish Farm Trading Wan Hu Fish Farm Trading

100% Tat Leng Plastic Pte Ltd (Singapore)

Subsidiaries

74% Qian Hu Marketing Co Ltd (Thailand)

100% Beijing Qian Yang Aquarium Co Ltd (China)

100% Guan Guan Aquarium

Sdn Bhd (Malaysia)

60%

Thai Qian Hu Company Limited (Thailand)

60%

Guangzhou Wan Jiang Technology Co Ltd (China)

100%

Fujian Anxi Qian Long Plastics Private Co Ltd (China)

*NNTL (Thailand) Limited (Thailand)

Associate

50%

Jin Jien Hsing Enterprises Co Ltd (Taiwan)

49%

*The Group has voting control at general meetings and Board meetings

Financial Calendar

28 January	Media & analysts' briefing for FY2001 results
19 February	Extraordinary General Meeting
18 March	Bonus issue
2 April	Release of Annual Report 2001
18 April	Annual General Meeting
29 April	Media & analysts' briefing for 1Q2002 results
8 May	Private placement of 10 million new ordinary shares at \$0.45 each
10 May	Payment of final dividends declared for 2001
24 July	Media & analysts' briefing for 1H2002 results
22 August	Extraordinary General Meeting
14 October	Release of 3Q2002 results
11 November	Transfer of listing to SGX Main Board

20 January	Media & analysts' briefing for FY2002 results
20 January	Proposed acquisition of Kim Kang Aquaculture Sdn Bhd
28 February	Release of Annual Report 2002
18 March	Annual General Meeting
10 April	Payment of final dividends declared for 2002
April	Release of 1Q2003 results
July	Media & analysts' briefing for 1H2003 results
October	Release of 3Q2003 results

Business Review

All of our business segments – ornamental fish, accessories, plastics and other business – registered revenue growth, which led to a 52% increase in turnover to \$62.7 million for the year ended 31 December 2002.

The manufacture and distribution of aquarium and pet accessories is the largest core activity of the Group, accounting for 51% of our Group turnover, an increase of 11% from the year-ago period. The breeding, farming and distribution of ornamental fish now accounts for 38%, down from 45% a year ago. The manufacture and sale of plastic bags, a supplementary activity of the Group, accounts for 11%.

In terms of geographical segments, the overseas portion of our sales - from Asia, Europe and other regions – accounted for 45% of turnover, gaining 5 percentage points from a year ago. Singapore, however still remains our biggest market, although we envisage overseas contributions will continue to be an important engine of growth going forward as we focus on expanding our operations in untapped regional markets such as India, Indonesia and Vietnam. In FY2002, turnover from overseas operations grew by 71.3% while our Singapore operations generated an increase of 39% in sales.



Ornamental Fish

Sales of ornamental fish grew by 31.2% year-on-year to \$24 million due to increased sales to more retail outlets in Singapore, including our in-house shop in Sungei Tengah Agrotechnology Park. The rise in fish exports from Singapore and the PRC to 60 countries worldwide, and positive contributions from our subsidiaries in Malaysia and Thailand also led to the increase.

As a result of the increased sales volume, the operating profit before tax from our ornamental fish business grew by 16.9% to \$2.4 million in FY2002.

Since the deregulation of import restrictions from Taiwanese authorities, the pent-up demand for Dragon Fish has challenged supply. Dragon Fish appeals to a niche market that is not susceptible to the boom and busts of economic cycles.

During the year in review, the export of Dragon Fish to Taiwan alone contributed 23% of the increase in sales. The Taiwan market is poised to grow further, along with the expanding PRC market.

On 20 January 2003, we announced the proposed acquisition of a 65% stake in Kim Kang Aquaculture Sdn Bhd, a leading Dragon Fish breeder based in Batu Pahat, Malaysia, for \$\$7.7 million.

Kim Kang, which has the requisite operational capacity, land, infrastructure and brooder stock, will enable us to substantially our supply of Dragon Fish to the market, and enhance our ability to ride the growth in its demand in the current year and in the coming years.

Aquarium and Pet Accessories

Turnover from our accessories business surged nearly 92% due to the significant improvement in sales from our Malaysia and Thailand subsidiaries as a result of gains in market share. Our overseas operations, including Wan Jiang – our Guangzhou-based accessories manufacturing operations which became a subsidiary in 4Q2002 – contributed approximately 65% of the increase from this business segment.

Domestically, we have managed to expand our distribution network to more local retailers and supermarkets.

The highest profit contributor in our Group during the year in review, our accessories business raked in a 174.2% jump in operating profit before tax to \$7.3 million as a result of higher sales volume from both Singapore and overseas operations. Gross profit margins are also higher as a result of backward integration of the manufacturing of accessories. Our Thailand subsidiary also managed to operationally profitable after incurring set-up and restructuring costs a year earlier.

Plastics and Others

Revenue from plastics and other business experienced a more modest growth due to local market competitiveness, having achieved a 7.1% increase to \$6.7 million.

Despite the increase in turnover, this segment recorded a 51% dip in operating profit before tax to \$270,000 because of a lower gross profit margin brought about by higher operating costs and losses incurred by one of our subsidiaries in the PRC.



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The Global Ornamental Fish Market

Today, as more people are seeking holistic, relaxing hobbies to augment the stresses of urban living, and as the concept of leisure moves indoors, it is little wonder that keeping ornamental fish has become the second most popular hobby, after photography. As such, the ornamental fish business is an important commercial activity that will continue to expand in the future, according to a report "The Ornamental Fish Market Oct 2001" published by the Food and Agriculture Organization of the United Nations.

Asia contributes more than 60% of the world's supply of ornamental fish, with Singapore being the largest exporter, accounting for about 30% of global supply, followed by the United States, Malaysia, Czech Republic, Indonesia, Sri Lanka, Japan, the Philippines, and Israel.

The distribution network for ornamental fish is a complex system, intricately linked among fishermen or collectors, the breeder, wholesaler, exporter, importer, trans-shipper, and retailer.



Our Hubs and Distribution Network



Singapore

The Qian Hu Business Model

Qian Hu is uniquely positioned as an integrated ornamental fish service provider, providing a one-stop service for domestic and international wholesalers, retailers and consumers.

Qian Hu is not just a breeder, distributor or manufacturer. The fact of the matter is, we are all of the above. Our business model hinges on the 4 pillars of core activities:

- l Ornamental Fish
- 2 Aquarium & pet accessories
- 3 Export
- 4 Domestic distribution

Each of our business segments – whether it be the breeding of Dragon Fish, or the import, farming, export of ornamental fish; manufacture and distribution of aquarium and pet accessories, or production of plastic bags – are integral links within our total value chain.

As our business model is exportable, expandable and scalable, Qian Hu is differentiated from the rest of the competition in terms of its integrated services, brand, distribution network, manufacturing capabilities, and most importantly, its quality, innovation and service culture throughout the Group.



Qian Hu's Integrated Value Chain

Breeding of Dragon Fish

Since 1995, Qian Hu established an early presence in the breeding and distributing of Dragon Fish, being one of the earliest to be registered with the Agri-Veterinary Authority (AVA). The barriers to entry are high knowledge and experience are crucial to make it successful, along with high capital investments involved. This is why there are presently only 6 registered farms in Singapore.

Oian Hu's 350 pieces of brooder stock - Dragon Fish kept solely for the purpose of propagating its species - are valued at \$1.5 million as fixed assets, based on the prices of similar grades of Dragon Fish in the market.

In 1999, a second generation of Dragon Fish was successfully nurtured which were then released for sale in 2000 after receiving a licence from the United Nation's Convention on International Trade in Endangered Species of Wild Fauna and Flora, commonly known as CITES.

Today, the Group exports Dragon Fish mainly to our Group subsidiaries in Malaysia, Thailand and the PRC along with markets like Japan and Hong Kong. The export sales for Dragon Fish contributed about 7% of the total Group's turnover and 5% of the Group's profit before tax in FY2002. However, with more markets, such as Taiwan opening up in FY2002, the Group expects to diversify its risk of relying on certain Asian markets.

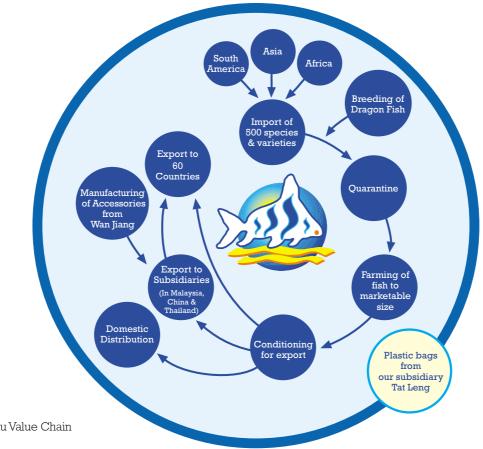
Import and local sourcing

The fish that we scour from various parts of Asia, Africa and South America are inspected for species, size, quantity and health upon arrival. Any found dead-onarrival, or are of inferior quality, are returned to the local supplier, or in the case of an overseas supplier, the cost of the affected fish will be deducted from the invoice.

Ouarantine

All imported fish are first guarantined upon arrival as required by AVA, so that parasites and bacterial infections

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are identified and treated with appropriate medicines and fish tonics. Inspected daily, all quarantined fish undergo the prophylactic process which use bacteriological and chemical preparations to eliminate parasites and bacteria. Minor surgical procedures are also carried out on Dragon Fish for aesthetic reasons. The quarantine process, which usually takes about 48 hours, helps to detect, control, treat and contain any spread of disease to other healthy fish.

Farming

Through our intensive farming process which takes anywhere between a month to 6 months, the fish are nurtured to a marketable size that will fetch higher value from retail and wholesale customers. During this process, the fries are properly fed and monitored by carefully observing their skin, colour, swimming posture, appetite as well as the pH level and hardness of the water.

Conditioning

A few days before the fish are exported to our customers in over 60 countries, the fish are placed on a fast so that their wastes would not pollute the water in the oxygenated plastic bag. The conditioning process also includes regulating the water quality, waste reduction techniques, temperature control and space acclimatisation – so that the fish are used to the confined spaces. Proper conditioning minimises the risk of deadon-arrival of our fish to our customers. Currently, our target survival rate for our fish is more than 97%.

Final Packing

After final inspection, fish are packed in potable water that are free of pathogens and contaminants. Water used for packing are stored in a special storage tank which is aerated 24-hours a day to increase the level of oxygen in the water, and to remove chlorine.

Fish are packed in polyethylene bags manufactured by our subsidiary, Tat Leng. During packing, oxygen and

medications are added to minimise the growth of microorganisms. The plastic bags of fish are then placed in styrofoam boxes for added insulation before being packed in the larger carton boxes for export.

Manufacture and Distribution of Accessories

The distribution of aquarium accessories complements our ornamental fish operations by providing a "one-stop" shop. The Accessories segment is an important growth driver for the Group as we have observed that for every dollar spent on ornamental fish, the consumer would invariably spend an average of five dollars on accessories.

To date, we have distributed more than 5,000 types of aquarium and pet accessories for about 27 major manufacturers and principals.

Under our proprietary Ocean Free brand, are products such as filters, fish tanks, and pumps that are designed and manufactured through our subsidiary in Guangzhou -Wan Jiang. Ocean Free also has a wide range of fish foods, tonics and medications sourced from Taiwan, China, Malaysia and Thailand and are repackaged under Ocean Free brand.

Food products for dogs, marketed under two of our proprietary brands, Bark and Nature Gift, while cat foods, under the Aristo-Cats Yi Hu brand name, are distributed in Singapore, Malaysia and Indonesia.

We are currently working on further improving our various retail brand identities, after receiving a grant from IE Singapore's Brandas Scheme.

Manufacture of Plastic Bags

The production of plastic bags is an ancillary business that complements our core activity of distributing ornamental fish as these bags have to be of a certain grade in order to ensure the proper packing of our fish

for export. In addition, our subsidiaries, Tat Leng (Singapore) and Qian Long (PRC) also manufactures plastic bags for companies in the ornamental fish, food and electronics industries.

Our Investor Relations Efforts

As we embarked on our SESDAQ listing in November 2000, we had resolved to be fully committed to our responsibility as a listed company and being transparent to our shareholders and investors. We were the first listed company to initiate an online open forum on Shareinvestor.com, providing a platform for investors to ask questions about the Company and air their views. This helps to achieve a deeper appreciation of our business and our industry.

From the second half of our fiscal year 2001, Qian Hu was one of the earliest listed companies to embrace quarterly reporting, way ahead of the public debate about its pros and cons. In addition to our usual practice of holding a media and analysts briefing twice a year, we ensured that timely announcements of our first and third quarter financial results were disseminated through Masnet and in the form of press releases.

We believe we are also the first and only company that invites regular participants in the forums on Shareinvestor.com to our half-year and full-year briefings. This has provided an additional opportunity for us to meet them face-to-face. We plan to start reaching out to forum participants on another investors portal, Wallstraits.com soon.

Besides having regular briefings to analysts, fund managers and retail investors, we have also consistently taken the same key messages to dealers, remisiers and clients of major broking houses. Accessibility to the media and key stakeholders in the investment community has become an important feature of Qian Hu's investor relations commitment. For instance, investors can get regular updates through a dedicated Investors Corner on our website, www.qianhu.com.

Another main communications channel is through our annual report. Increasingly we are striving to educate our shareholders about our industry not only in Singapore, but the region and beyond. We are pleased that our efforts in producing quality annual reports was recognized by the Annual Report Awards committee – comprising the Institute of Certified Public Accountants of Singapore, Securities Investors Association (Singapore), Singapore Institute of Management, Singapore Institute of Directors, Singapore Exchange Limited and The Business Times – and was voted first runner-up in the Best Annual Report Award (SESDAQ category).

Investor relations aside, we are also committed to our public responsibility. Our farm at Sungei Tengah Agrotechnology Park, which is part of the Singapore Tourism Board's agro-tourism network, is open to the public where they can gain a better appreciation of our core operations and industry.









Our Workplace

We have important relationships with a wide range of stakeholders, including employees, customers and suppliers. We engage these stakeholders in a multiplicity of ways such as through an annual employee survey and supplier relationship management initiatives.

What sets Qian Hu apart, however, is the strong cord of teamwork, camaraderie and commitment that is uniquely part of the Qian Hu culture. Not only is Qian Hu a fun place to work in, we have also inculcated a quality culture that is absolutely essential for us to deliver a standard of service that is second to none.

Our staff understand that in order to be a successful business, we must not only produce quality products and services, but be differentiated by our customer focus that pervades all that we do. These values are instilled in our staff through exemplary leadership, hands-on management, our ISO-certified quality procedures, and customer feedback. Qian Hu has a formal system in place where organizational quality values are communicated to the rank and file through the Quality Task Force comprising all divisional managers.

Our managers and quality champions are encouraged to upgrade their knowledge of quality practices by attending various seminars, and continually benchmarking against the best-in-class by participating in awards and competitions.



At Qian Hu, we adopt a transparent, consultative approach to management – continually seeking to explain our policy rationales, and encouraging staff participation and feedback. This is done with the objective of inculcating a strong sense of family and teamwork amongst all staff within the Group.

Training/Skills Upgrading

In preparation for the conversion to ISO 9001:2000 standard in 2002, our staff attended the new ISO standard awareness workshop in June. In addition key staff also participated in Internal Quality Audit courses conducted by our external consultants.

The Group participated in International Enterprise Singapore's China Global Partners Programme which is aimed at developing the relevant skills of executives so that they can play a more significant role in Singapore's business relations with China. One of our staff, who was posted to our Guangzhou subsidiary Wan Jiang, was selected for the Programme. In the near future, we hope to identify more staff for this enrichment programme as we seek to expand our presence regionally.

In the current year 2003, we will commit more training resources to better equip our staff to offer even higher levels of customer service, further improve productivity and for career advancement.

Welfare

In 2002, we expanded our annual staff survey to our overseas subsidiaries in the Group. Of those who responded, 89.1% expressed that they were very happy with the Company. The 9.4% decrease from the previous year was largely due to an increased pool of respondents, since this year was the first time we extended the survey to the overseas subsidiaries. While we are mindful that there may be some fewer employees in the Group that may take some time to feel totally at home, the overall good response from our staff bears testimony that Qian Hu is indeed a happy environment to work in. We will continue to improve our staff welfare that will continue to foster such a conducive environment for the continual growth of the Group – such as remembering an individual's birthday, profit-sharing and stock options.

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Qian Hu Employees' Share Option Scheme ("ESOS")

Administered by a committee, the Qian Hu ESOS grants share options to eligible employees at a discount to prevailing marketing prices with a vesting period of 2 years. The number of shares granted to each employee will depend on the performance of the Company and the Group; the individual performance of the employee; the overall contribution of the employee to the success and development of the Company and the Group.



Reaching Out

Just as our business is to provide a sense of well-being for those who appreciate caring for their ornamental fish, we are continually mindful of the plight of the underprivileged in our society.

In order to motivate and encourage every staff member to participate in community outreach projects, Qian Hu contributes a dollar for every dollar that our staff pledge from their monthly salaries. In addition, our staff are involved in the SHARE programme and various fund-raising activities for certain charities. Apart from regular visits to homes for the aged every two months, our staff also provide opportunities for them to visit our farm. During the year in review, the total contribution to charity from our employees and the company amounted to approximately \$60,000.

Our staff involvement is, on average, about 60% and that translates to about 2 work days per employee annually.

As part of our efforts to promote the ornamental fish industry, we set up the Qian Hu Agro-Education Centre at our Singapore farm – an activity centre reminiscent of our old farm in old Nee Soon, complete with poultry, fruit trees and garden spices. The Centre hopes to give the younger generation of Singaporeans a taste of how "kampong" life was like back in the old days. One of the highlights of the Centre's activities must surely be the catching of "longkang" fish – a favourite past time of old.

As one of the few truly agricultural landmarks in Singapore, Qian Hu Fish Farm has been recognised by the Singapore Tourism Board as an agro-tourism destination.



Caring for the Environment

Globally, investors are paying more attention to how companies manage social, environmental and ethical issues.

At Qian Hu, we are keenly aware of our responsibility towards the environment as it is inextricably linked to our business of promoting ornamental fish as a hobby of choice. We aim to be a responsible company, balancing our business goal of creating sustainable value with a strong commitment to containing the environmental impact of our activities to a practicable minimum.

Since 1997, we have had an integrated ISO 14001 Environmental Management System in place to minimise the stress that our operations may have on the environment – such as the recycling of rain water for use in our operations thereby reducing our reliance on potable water, and cutting down on the usage of plastic bags where possible. In so doing, we have set clear environmental goals and objectives that are closely monitored according to the guidelines set out in our environment policy:

- To comply with all applicable laws, regulations and standards. We will also collaborate with the authorities and with other companies of the sector to develop standards and practical guides aimed at protecting natural resources, and the environment.
- To undertake programmes of continual improvement and prevention of pollution.
- To reduce the use of environmental unfriendly packing materials and strive to develop alternatives by adopting new technologies, when available.
- To reduce resource consumption and waste generation.
- To provide the necessary training and support to staff to ensure that they are able to fulfil the commitments.
- To undertake reviews to ensure compliance with this policy.



The Qian Hu Story

Qian Hu's history can be traced back to the early days of the Company's pioneers, two brothers who were in the pig farming business – Mr Yap Tik Huay, the father of the Group's Executive Chairman Kenny Yap, and his brother Yap Hey Cha.

In 1985, their pig farm was eradicated due to the Government's move to stem pollution and free up more land for residential development. At that point in time, Tik Huay's three sons, Yap Peng Heng, Yap Hock

Huat and Yap Kim Choon joined the family business. They converted the old pig pens into concrete ponds and started breeding guppies for the local fish exporters. However, in 1989, during a heavy thunderstorm, their entire stock of guppies was washed away.

Having to start all over again, and with a new name "Qian Hu" – which means a thousand lakes in Chinese, Kenny and two of his cousins, Alvin and Andy, were more than ever determined to put their collective efforts towards rebuilding Qian Hu. It also began diversifying into the aquarium accessories business. Two years later, Qian Hu started exporting to the rest of the world, a journey that helped position Singapore as a major player in the export of ornamental fish.

In 1993, Qian Hu entered into a joint venture with The China Aquaculture Society and incorporated Beijing Qianyang Aquarium Co., Ltd, based in Beijing, to supply cold-water ornamental fish and aquarium

accessories to Northern China. Two years later, Qian Hu acquired full ownership of the joint venture company.

> In 1995, a year after the move to its present location within Sungei Tengah Agrotechnology Park, Oian Hu developed quality systems for its operations, leading to three ISO 9002 certifications for conditioning and packing of ornamental fish for export (1996); the trading, quarantine and breeding of Dragon Fish (1997), and the retail and wholesale of aquarium accessories and pet products (2000).

Little did they realise, however, that they were in for another setback. After their failure in rearing guppies, they went on to farm high-fin loaches despite knowing very little about this particular variety of fish. In one fell swoop, their entire stock of 4,000 loaches died. They lost almost everything, except for their resolve, mettle and drive to succeed. Since then, however, they learnt from this lesson, realising their mistake of not diversifying risks, and not knowing enough about their products. In fact, this lesson was so valuable to them that the high-fin loach became Qian Hu's mascot to serve as a daily reminder of where they were, and where they never wanted to be again.

In 1990, Qian Hu expanded into the local wholesale distribution business, and increased its range of ornamental fish to include Discus, Chichlid, and Gourami.

The farm was landscaped in such a way that runoffs from heavy rainfall would not affect the fish stock and breeding ponds. This unique system of recycling water won Qian Hu the ISO 14001 certification for its environmental management system involved in importing, exporting, conditioning, distributing and farming of tropical fish in 1998.

1997 was also an exciting year for Qian Hu. During that year, its proprietary auto-packing machines for the packing of ornamental fish – a project encouraged by the Agri-food and Veterinary Authority of Singapore (AVA), and partially funded by the EDB Innovative Development Scheme – was launched. This was followed by Qian Hu's admission into the Productivity and Standards Board's Promising Small and Medium Enterprises Programme, which helped the Group formulate and develop its strategic business plan. Since 1999, Qian Hu began distributing aquarium and pet accessories to Malaysia, China and Thailand. Much growth was expected in this business as for every dollar spent on ornamental fish, five more would be spent on accessories.

The year 2000 not only marked the beginning of the new millennium, it was also the year that Qian Hu Corporation Limited was listed on the Singapore Exchange's SESDAQ.

Its goal is to create shareholders' value by becoming a world-class ornamental fish and accessories company, through its spirit of innovation as well as product and service quality. In just a year after its public listing, Oian Hu was honoured for its commitment towards good corporate governance and transparency when it was voted one of the most transparent companies (SESDAQ/Small Caps - up to \$100 million category) by the Singapore Investors Association (Singapore).

A joint venture company in Guangzhou, Wan Jiang Technology Co Ltd, was established in 2001 together with a Taiwanese partner, to produce the Group's proprietary brands of aquarium and pet accessories as well as other third party brands. These accessories were being distributed throughout the Group's regional subsidiaries, and other countries such as Japan. Germany, United Kingdom and beyond. Qian Hu subsequently increased its stake in Wan Jiang to 60% a year later, thus making it a subsidiary of the Group.

In that same year, the Group set up a new subsidiary in Thailand – Thai Qian Hu Company Limited – which had received approval from the country's Board of Investments to export and distribute tropical fish.

2002 was an extremely eventful year for Qian Hu as it was transferred to the main board of the Singapore Exchange

in November. Its corporate achievements were also broad-based, such as one of the Most Transparent Companies (SESDAQ/Small Caps) by Singapore Investors Association (Singapore) for the second time running; Most Admired Company on SESDAQ; highly commended for Best Overall Investor Relations award by IR Asia and Asian Wall Street Journal; first runner-up in the Best Annual Report Award (SESDAQ category) as well as being among

the top 3 "Best Small Companies" in a poll organized by Asiamoney.

That was also the year that a new fish division in Guan Guan (Malaysia) was set up and a new associate company, Jin Jien Hsing Enterprises Ltd, a distributor of pet foods in Taiwan, joined the Group.

In 2003, Qian Hu made a step towards backward integration by acquiring a leading Dragon Fish breeder in Batu Pahat, Malaysia – Kim Kang Aquaculture Sdn Bhd. This helps to secure a consistent and reliable supply of the highly-prized Arowana for our overseas subsidiaries as well as new markets in Taiwan and the PRC.

> Beijing Qian Yang, in 2003, joined the many of Qian Hu's overseas units such as Tat Leng, Guan Guan and Thai Qian Hu, to receive the international mark of quality
> ISO 9002.

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To improve our communications with customers, investors and shareholders, an intelligent customer service phone hotline, Qian Hu Voice, was launched. With this system, callers are able to get information on their

reward points, give feedback and even obtain the latest Qian Hu stock quotes in real-time.

Looking forward, Qian Hu's Singapore operations would continue to grow organically, while the bulk of Qian Hu's growth in the next few years would be driven by its overseas operations led by (1) its accessories manufacturing, (2) breeding of Dragon Fish, and (3) the distribution of ornamental fish and accessories activities.

Corporate Governance Statement

The Board of Directors and management are committed to high standards of corporate governance and embrace the best practices contained in the Best Practice Guide issued by the Singapore Exchange Securities Trading Limited (the "SGX-ST") so as to ensure greater transparency and protection of shareholders' interests. This statement outlines the main corporate governance practices that were in place throughout the financial year.

Board Matters

Role of the Board of Directors

The Board's primary role is to protect and enhance long-term shareholder value. It sets the overall strategy for the Group and supervises executive management. To fulfil this role, the Board is responsible for the overall corporate governance of the Group including setting its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Board Processes

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including an Executive Committee, an Audit Committee, a Nominating Committee and a Remuneration Committee. These committees function within clearly defined terms of reference and operating procedures, which are reviewed on a regular basis. The effectiveness of each committee is also constantly monitored.

The full Board currently holds 4 scheduled meetings each year. In addition, it holds strategy meetings and special meetings at such other times as may be necessary to address any specific significant matters that may arise.

Matters Requiring Board Approval

The directors have identified a number of areas for which the Board has direct responsibility for decision-making. The Board meets to consider the following corporate events and actions:

- · approval of quarterly results announcements;
- · approval of the annual report and accounts;
- · declaration of interim dividends and proposal of final dividends;
- · convening of shareholders' meetings;
- approval of corporate strategies; and
- · material acquisitions and disposal of assets.

All other matters are delegated to committees whose actions are reported to and monitored by the Board.

Access to Information

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Directors are from time to time furnished with detailed information concerning the Group to enable them to be fully cognisant of the decisions and actions of the Group's executive management. All directors have unrestricted access to the Company's records and information and receive monthly management accounts to enable them to constantly keep track of the Group's financial position. Detailed Board papers are prepared for each meeting of the Board and are normally circulated a week in advance of each meeting. The Board papers include sufficient information from management on financial, business and corporate issues to enable the directors to be properly briefed on issues to be considered at Board meetings. All the independent directors have access to all levels of senior executives in the Group, and are encouraged to speak to other employees to seek additional information if they so require.

The Company Secretary attends all Board meetings and is responsible to ensure that established procedures and all relevant statutes and regulations which are applicable to the Company are complied with.

Each director has the right to seek independent legal and other professional advice, at the Company's expense, concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Directors' Meetings held in 2002

In the course of the year under review, the number of meetings held and attended by each member of the Board is as follows:

	Number of Board	
Name of director	Meetings held	Attendance
Kenny Yap Kim Lee (Chairman)	4	4
Alvin Yap Ah Seng	4	4
Andy Yap Ah Siong	4	2
Robson Lee Teck Leng	4	4
Chang Weng Leong	4	4
Tan Tow Ee	4	2 (appointed only with effect from 1 May 2002)

Training of Directors

All directors receive appropriate training to develop individual skills as required. The Group provides extensive background information about its history, mission and values to its directors. The Company also provides ongoing education on Board processes, governance and best practices. Directors also

have the opportunity to visit the Group's operational facilities and meet with management to gain a better understanding of business operations. Newly appointed directors are also given training appropriate to the level of their previous experience.

Board Composition and Balance

Presently, the Board comprises three executive directors and three independent directors. The names and the key information of the directors of the Company in office at the date of this Statement are set out in the Directors' Report.

The composition of the Board is determined in accordance with the following principles: -

- · the Board should comprise at least one-third of independent non-executive directors;
- the Board should have enough directors to serve on various committees of the Board without over-burdening the directors or making it difficult for them to fully discharge their responsibilities;
- directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors are subject to
 re-election once every three years. The term of office for each executive director is fixed by his service contract with the Company which also regulates
 his terms of employment. Presently, all the three executive directors of the Company are employed under service contracts which will expire on 24
 October 2003.

The Board constantly examines its size and, with a view to determining the impact of its number upon effectiveness, decides on what it considers an appropriate size for itself. The composition of the Board is reviewed on an annual basis by a Nominating Committee to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Committee, in consultation with the Board, determines the selection criteria and selects candidates with the appropriate expertise and experience for the position. The Board then nominates the most suitable candidate who is only appointed to the Board by the Company in general meeting.

Independent Members of the Board of Directors

The Board of Directors has three independent members, representing 50% of the Board: Mr Robson Lee Teck Leng, Mr Chang Weng Leong, and Mr Tan Tow Ee. The criterion of independence is based on the definition given in the Code of Corporate Governance issued by the Corporate Governance Committee. The Board considers an "independent" director as one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent judgement of the Group's affairs.

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Chairman and Chief Executive Officer

It is the view of the Board that it is in the best interests of the Group to adopt a single leadership structure i.e. where the CEO and chairman of the Board is the same person, so as to ensure that the decision-making process of the Group would not be unnecessarily hindered.

The Group's Executive Chairman and CEO is Mr Kenny Yap Kim Lee, who is responsible for the day-to-day running of the Group as well as the exercise of control over the quality, quantity and timeliness of information flow between the Board and management. He has played an instrumental role in developing the business of the Group and has also provided the Group with strong leadership and vision.

All major decisions made by the Executive Chairman and CEO are reviewed by the Audit Committee. His performance and appointment to the Board is being reviewed periodically by the Nominating Committee and his remuneration package is being reviewed periodically by the Remuneration Committee. Both the Nominating Committee and the Remuneration Committee comprise of only the independent directors of the Company. As such, the Board believes that there are adequate safeguards in place against an uneven concentration of power and authority in a single individual.

Board Committees

To assist the Board in the execution of its duties, the Board has delegated specific functions to the following committees:

Executive Committee

The Executive Committee was established in July 2000. It is chaired by Mr Kenny Yap Kim Lee and comprises all the executive directors and two key senior management personnel of the Group. The Executive Committee is entrusted with the conduct of the Group's business and affairs, in line with the overall strategy set by the Board. The Committee meets on a monthly basis and on such other times where necessary.

The number of meetings held and attendance during the last financial year were as follows:

	Number of			
Name of director/executive	Appointment	meetings held	Attendance	
Kenny Yap Kim Lee (Chairman)	CEO	12	12	
Alvin Yap Ah Seng (Member)	Executive Director	12	12	
Andy Yap Ah Siong (Member)	Executive Director	12	10	
Low Eng Hua (Member)	Group General Manager	12	3 (on overseas posting)	
Lai Chin Yee (Member)	Group Financial Controller	12	12	

Audit Committee

The Audit Committee was established in October 2000. It is chaired by Mr Robson Lee Teck Leng and its other members are Mr Chang Weng Leong and Mr Tan Tow Ee. All three members are independent directors of the Company. The Audit Committee meets regularly with the Group's external and internal auditors and its executive management to review accounting, auditing and financial reporting matters so as to ensure that an effective control environment is maintained in the Group.

The Audit Committee also monitors proposed changes in accounting policies, reviews the internal audit functions and discusses the accounting implications of major transactions. In addition, the Committee advises the Board regarding the adequacy of the Group's internal controls and the contents and presentation of its reports.

Specifically, the Audit Committee:

- · reviews the audit plans and scope of audit examination of the external auditors;
- evaluates the overall effectiveness of both the internal and external audits through regular meetings with each group of auditors;
- · reviews the adequacy of the internal audit function;
- determine that no restrictions are being placed by management upon the work of the internal and external auditors;
- evaluates the adequacy of the internal control systems of the Group by reviewing written reports from the internal and external auditors, and management's responses and actions to correct any deficiencies;
- · evaluates the adherence to the Group's administrative, operating and internal accounting controls;
- reviews the annual and quarterly financial statements and announcements to shareholders before submission to the Board for adoption;
- reviews interested person transactions (as defined in Chapter 9 of the Listing Manual of the SGX-ST) to ensure that they are on normal commercial terms and not prejudicial to the interests of the Company or its shareholders; and
- · considers other matters as requested by the Board.

The Audit Committee is authorised to investigate any matter within its terms of reference, and has full access to management and also full discretion to invite any executive director or executive officer to attend its meetings, as well as reasonable resources to enable it to discharge its function properly. Annually, the Audit Committee meets with the internal auditors and the external auditors separately, without the presence of management. This is to review the adequacy of audit arrangements, with particular emphasis on the scope and quality of their audits, the independence and objectivity of the external auditors and the observations of the auditors.

The number of meetings held and attendance during the last financial year were as follows:

Number of				
Name of director	Appointment	meetings held	Attendance	
Robson Lee Teck Leng (Chairman)	Independent	4	4	
Chang Weng Leong (Member)	Independent	4	4	
Tan Tow Ee (Member)	Independent	4	2 (appointed only with effect from 1 May 2002)	

Nominating Committee

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This committee was established in July 2002 and comprises the three independent directors of the Company. The chairman of the Nominating Committee is Mr Tan Tow Ee.

The responsibilities of the Nominating Committee are to determine the criteria for identifying candidates and reviewing nominations for the appointment of directors to the Board and also to decide how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval.

In addition, the Nominating Committee also performs the following functions:

- · assess the contribution of each individual director to the effectiveness of the Board;
- · re-nominate any director, having regard to the director's contribution and performance;
- · determine on an annual basis whether a director is independent;
- decide whether a director is able to and has been adequately carrying out his or her duties as a director of the Company, particularly when the director has multiple board representations; and
- identify gaps in the mix of skills, experience and other qualities required in an effective board so as to better nominate or recommend suitable candidates to fill the gaps.

The Nominating Committee has adopted a formal process for the evaluation of the performance of the Board. Objective performance criteria used to assess the performance of the Board include:

- the Company's share price performance vis-à-vis the Singapore Straits Times Index;
- return on assets (ROA);
- · return on equity (ROE);
- return on investment (ROI); and
- profitability on capital employed.

A member of the Nominating Committee holds office until the next Annual General Meeting following that member's appointment and may, subject to the prior approval of the Board, be re-appointed to such office. Where, by virtue of any vacancy in the membership of the Nominating Committee for any reason, the number of members of the Nominating Committee is reduced to less than three (or such other number as may be determined by the SGX-ST), the Board shall, within three months thereafter, appoint such number of new members to the Nominating Committee. Any new member appointed shall hold office for the remainder of the term of office of the member of the Nominating Committee in whose place he or she is appointed.

The Nominating Committee regulates its own procedures and in particular the calling of meetings, the notice to be given of such meetings, the voting and proceedings thereat. The Company also maintains records of the deliberations and proceedings of the Nominating Committee.

The number of meetings held and attendance during the last financial year were as follows:

	Number of			
Name of director	Appointment	meetings held	Attendance	
Tan Tow Ee (Chairman)	Independent	1	1	
Robson Lee Teck Leng (Member)	Independent	1	1	
Chang Weng Leong (Member)	Independent	1	1	

Remuneration Committee

This committee was established in July 2002 and comprises the three independent directors of the Company and is chaired by Mr Chang Weng Leong. It meets at least two times annually.

The Remuneration Committee reviews and approves recommendations on remuneration policies and packages for key executives. The review covers all aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, share options, and benefits-in-kind. The committee's recommendations are made in consultation with the chairman of the Board and submitted for endorsement by the entire Board.

Annual reviews of the compensation of directors are also carried out by the Remuneration Committee to ensure that the remuneration of the executive directors and senior management commensurate with their performance and value-add to the Group, giving due regard to the financial and commercial health and business needs of the Group. The performance of the CEO (along with that of other senior executives) is reviewed periodically by the Remuneration Committee and the full Board.

The Remuneration Committee also administers the Qian Hu Post-IPO Employees' Share Option Scheme (the "ESOS") which was implemented on 8 November 2000 as a share incentive scheme. Employees of the Group who are directors (whether executive or non-executive) of the Company, controlling shareholders of the Company or the associates of such controlling shareholders of the Company are not entitled to participate in this ESOS. Amendments to the ESOS rules were made on 19 February 2002 to, inter alia: -

(a) allow the participation of the associates of the controlling shareholders of the Company in the ESOS; and (b) allow the grant of options at discounted exercise prices.

Other details of the ESOS are found in the Directors' Report.

The number of meetings held and attendance during the last financial year were as follows:

		Number of	
Name of director	Appointment	meetings held	Attendance
Chang Weng Leong (Chairman)	Independent	1	1
Robson Lee Teck Leng (Member)	Independent	1	1
Tan Tow Ee (Member)	Independent	1	1

Remuneration Matters

The Group's remuneration policy is to provide compensation packages at market rates which reward good performance and attract, retain and motivate managers and directors.

The Remuneration Committee determines the remuneration packages for the Executive Chairman and the executive directors based on the performance of the Group and the individual. Independent directors are paid directors' fees, determined by the full Board based on the effort, time spent and responsibilities of the independent directors. The payment is subject to approval of the Company at each AGM.

Details of remuneration paid to the directors of the Company for the year ended 31 December 2002 are set out below:

			Directors'	
Name of director	*Salary	* Bonus	fees	Total
	\$'000	\$'000	\$'000	\$'000
Kenny Yap Kim Lee, CEO	185	70	-	255
Alvin Yap Ah Seng, Executive	167	70	-	237
Andy Yap Ah Siong, Executive	164	70	-	234
Robson Lee Teck Leng, Independent	-	-	10	10
Chang Weng Leong, Independent	-	-	10	10
Tan Tow Ee, Independent	-	-	7	7
	516	210	27	753

* The salary and bonus amounts shown are inclusive of allowances and Central Provident Fund contribution. (None of the directors of the Company are entitled to participate in the Employees' Share Option Scheme)

Details of remuneration paid to the top 10 executives (who are not directors of the Company) of the Group for the year ended 31 December 2002 are set out below:

Name of executive	*Total Remuneration \$'000	Share options granted (number of options)	Exercise price \$	Date of expiry
Yap Ping Heng	155	-	-	-
Yap Hock Huat	155	-	-	-
Yap Kim Choon	155	-	=	-
Yap Kim Chuan	84	-	=	-
Lai Chin Yee	138	36,000	0.59	31 July 2012
Low Eng Hua	109	36,000	0.59	31 July 2012
Thomas Ng Wah Hong	93	-	=	-
Jimmy Tan Boon Kim	128	40,000	0.59	31 July 2012
Lee Kim Hwat	115	40,000	0.59	31 July 2012
Alex Chuang	84	-	-	-

* Remuneration amounts shown are inclusive of salary, bonus, allowances and Central Provident Fund contribution.

Mr Yap Ping Heng, Mr Yap Hock Huat, Mr Yap Kim Choon and Mr Yap Kim Chuan are the brothers of Mr Kenny Yap Kim Lee, CEO. They are also cousins to Mr Alvin Yap Ah Seng and Mr Andy Yap Ah Siong, the executive directors.

Accountability and Audit

In presenting the annual financial statements and quarterly announcements to shareholders, it is the aim of the Board to provide the shareholders with a detailed analysis, explanation and assessment of the Group's financial position and prospects. Management currently provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a quarterly basis.

Internal Controls

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The directors regularly review the effectiveness of all internal controls, including operational controls.

Risk assessment and evaluation takes place as an integral part of the annual strategic planning cycle. Having identified the risks to achievement of their strategic objectives, each business is required to document the management and mitigating actions in place and proposed in respect of each significant risk.

Internal Audit

The Board recognises and is responsible for maintaining a system of internal control processes to safeguard shareholders' investments and the Group's business and assets. The effectiveness of the internal financial control systems and procedures are monitored by management and the internal audit function is overseen by the Group Financial Controller in order to identify, analyse and manage the risks incurred by the Group in its activities and promote continuous improvement to the Group's operations. At least once every quarterly, all major operating entities are closely examined by the Group Financial Controller, who reports to the chairman of the Audit Committee on any material non-compliance and internal control weaknesses and the Audit Committee will oversee and monitor the implementation of any improvements thereto.

Communication with Shareholders

The Company does not practise selective disclosure. In line with continuous disclosure obligations of the Company pursuant to the SGX-ST's Listing Rules and the Singapore Companies Act, the Board's policy is that all shareholders should be equally and timely informed of all major developments that impact the Group.

Information is communicated to shareholders on a timely basis through:

- annual reports that are prepared and issued to all shareholders. The Board makes every effort to ensure that the annual report includes all relevant
 information about the Group, including future developments and other disclosures required by the Companies Act and Singapore Statements of
 Accounting Standard;
- quarterly financial statements containing a summary of the financial information and affairs of the Group for the period are published through the MASNET and news releases;

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- · notices of and explanatory memoranda for annual general meetings and extraordinary general meetings;
- press and analyst briefings for the Group's half-year and full-year results as well as other briefings, as appropriate;
- · press releases on major developments of the Group;
- · disclosures to the SGX-ST; and
- the Group's website at www.qianhu.com at which shareholders can access information on the Group. The website provides, inter alia, corporate announcements, press releases, annual reports, and profiles of the Group.

In addition, shareholders are encouraged to attend the AGM to ensure a high level of accountability and to stay informed of the Group's strategy and goals. The AGM is the principal forum for dialogue with shareholders.

The notice of the AGM is despatched to shareholders, together with explanatory notes or a circular on items of special business, at least 14 working days before the meeting. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at the AGM. The Chairmen of the Audit, Remuneration and Nominating Committees are normally available at the meeting to answer those questions relating to the work of these committees.

Dealing in Securities

The Group has procedures in place prohibiting dealings in the Company's shares by its officers while in possession of price sensitive information and during the period commencing one month prior to the announcement of the Company's quarterly, half-yearly and full year results. Directors and executives are also expected to observe insider trading laws at all times even when dealing in securities within permitted trading period.

Compliance with Existing Best Pratices Guide of The Singapore Exchange

The Board of Directors confirms that for the financial year ended 31 December 2002, the Company has complied with the principal corporate governance recommendations set out in the Best Practices Guide issued by the SGX-ST.

Risk Factors

Acquisition of Kim Kang Aquaculture Sdn Bhd ("Kim Kang")

As in all business acquisitions, there is always an adjustment period before the systems of the new business can be fully integrated into the Group's management and operations. To minimize disruption and to ensure continuity in the operations of Kim Kang after the proposed acquisition, the original owner of Kim Kang, Mr Goh Siak Ngan, and his team of experienced operations personnel will be employed by our Group. Mr Goh and his wife will continue to hold a 35% equity stake in Kim Kang after the acquisition and have entered into a shareholders' agreement with our Company to underscore their commitment to further grow Kim Kang as a joint venture with our Company. Our Group has more than 10 years business relationship with Mr Goh and we have over the last decade built a good relationship of trust and confidence with each other.

Outbreak of diseases and infection

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Ornamental fish, like other livestock, is susceptible to disease and infection. However, different breeds of fishes are vulnerable to different types of diseases. While it is possible that a rare or virulent strain of bacteria or virus may infect a particular breed of fish in the farm, fatal infection across breeds is uncommon. We have institutionalized a comprehensive health management and quarantine system for all our domestic and overseas operations to ensure a consistently high standard of good health care management and hygiene for our fishes. Currently, all our domestic and overseas fish operations have attained ISO 9002 certification.

We will also institutionalize our comprehensive health management and quarantine system in Kim Kang after the completion of our acquisition to minimize any problems regarding health care and hygiene. It should be noted that Kim Kang breeds mainly Dragon Fish which is a very robust and hardy fish existing since pre-historic times. Any disease or bacteria strong enough to affect the Dragon Fish is expected to be very rare.

Suppliers, customers and general business risks

None of our suppliers or customers contribute more than 5% of our Group's turnover. While our Group faces the normal business risks associated with ageing collections and slow moving stocks, we have adopted a prudent accounting policy of a general 10% provision for all trade debts overdue for more than 120 days and a full provision for all non-moving stocks of a duration of more than 6 months.

Not reliant on the sale of any particular type of fish

Based on the FY 2002, Luo Han sales contributed approximately 5% of our fish sales and less than 2% of our Group total turnover. We sell over 500 species and varieties of ornamental fishes to more than 60 countries and are not reliant on the sale of any particular type or specimen of fish. Even after the acquisition of Kim Kang, our Group will not be reliant on the sale of the Dragon Fish because of our critical spread of fishes that we sell.

Fluctuations in foreign exchange currencies against the Sing Dollar

In FY 2002, approximately 90% of our sales were denominated in Singapore Dollars. Around 50% of our supplies were purchased in Sing Dollars, while the rest were in Euros, US dollars and the Japanese Yen. While our Group does not have any formal hedging policy against foreign exchange fluctuations, we continuously monitor the exchange rates of the major currencies and enter into hedging contracts with our banks from time to time whenever we detect any movements in the respective exchange rates which may impact on our profitability.



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