



World Hobbies

Qian Hu Corporation Limited
Annual Report 2004



contents

World Hobbies	01	Operating & Financial Review	30
Chairman's Message	14	Qian Hu's Hubs and Distribution Network	42
Value Added Statement	19	Retail Chain Stores	43
Group Financial Highlights	20	Our Stakeholders	44
Board of Directors	22	Qian Hu Story	49
Senior Management	24	Report on Corporate Governance	53
Corporate Information	26	Contents for Financial Statements	65
Group Structure	27	Statistics of Shareholders	126
Financial Calendar	28	Notice of Annual General Meeting	127
The Qian Hu Business Model	29		



For centuries, keeping ornamental fish and pets has brought pure pleasure to people young and old, all over the globe. It is little wonder that today, it is still one of the world's favourite pastimes.

WORLD HOBBIES





WORLD HOBBIES

HOBBIES THAT TRANSCEND GENERATIONS

Remember that pair of guppies that you used to rear in an old peanut butter jar, or that hamster that brought you hours of sheer delight?

Technology-laden toys such as gameboys and Tamagotchi can never replace the fuzzy feeling that one feels by being connected with a treasured pet. The invaluable role that pets play in society cannot be ignored. Companion animals – be it ornamental fish, the faithful dog or the gentle cat – have been instrumental in enriching the lives of many around the world.

In China and Japan, fish were being kept as ornamental additions to the aesthetic surroundings, particularly as pool fish. Historical records show that the culture of colored carp was quite widespread during the Sung Dynasty (960-1279), with the introduction of ornamental fish to Japan around 1500. Goldfish were introduced to England between 1611 and 1691. From around 1730 onwards there was a steady stream of reported instances of fish being kept, with the spread of the goldfish first into Holland then into Germany.

There are countless historical representations of pets as part of our daily lives. Think of the chivalric knight's tomb with his dog at his feet as a symbol of fidelity, or the magnificent medieval manuscripts filled with dogs, cats and birds. Throughout the ages, portraits of royalty have depicted Kings and Queens with their favourite pets.

The ship's cat on Captain Scott's expedition to the South Pole in 1912 was the first of its species to land and overwinter in Antarctica. It had its own blanket, hammock and pillow.

No matter how it first developed, one thing is certain: the powerful bond between people and their pet animals is entirely mutually beneficial. Simply watching a child playing with a pet dog or cat, or an elderly person enjoying the companionship of an animal underscores the mutual benefits and interdependence of the relationship. Indeed, the relationship between humans and animals is far deeper and more rewarding than we can ever imagine!

WORLD HOBBIES

THE IMPORTANCE OF PETS IN MODERN SOCIETY

In recent times, the keeping of pets has transcended into a new dimension. Instead of having children, couples in urban societies are taking to keeping pets instead. In our home base Singapore, pet shops are proliferating, with groomers and veterinary surgeons doing a brisk business. Hobbyists are getting serious - buying up vitamins and antioxidants, coat enhancers, and pet colognes.

This phenomenon is not exclusive to Singapore, but to the rest of the region as well. Based on a recent television news report, there is even a pet cemetery in Beijing!

Fish keeping is one of the highest ranking hobbies of the world today, coming in only second to that of photography. It is one of the few hobbies that relaxes the hobbyist after a hectic day at work, all the while adding to the décor of any room.

In the United Kingdom, just under half of the households in the country own a pet – ranging from the traditionally-popular freshwater ornamental fish, dogs and cats, to rabbits, exotic snakes and spiders. According to Ornamental Aquatic Trade Association (OATA) based there, the population of pet fish in the United Kingdom numbers in the region of 140 million, about two and a half times more than its human population in the British Isles. 14% of its 3 – 3.5 million households own either an aquarium or pond, and keeping ornamental fish is the third most popular hobby after cats and dogs.

According to the American Pet Association (March 2003, apapets.com), a poll of 17,121 pet owners in the United States revealed that 44.9 million people own at least one dog while 102.8 million households have at least a cat in 2003. They treat their pets as a special member of the family and as best friends and give birthday treats and Christmas gifts. 39% of America's pet owners display their pet's picture in their home. 16% of America's pet owners keep a picture of their pet in their wallet or purse.



WORLD HOBBIES

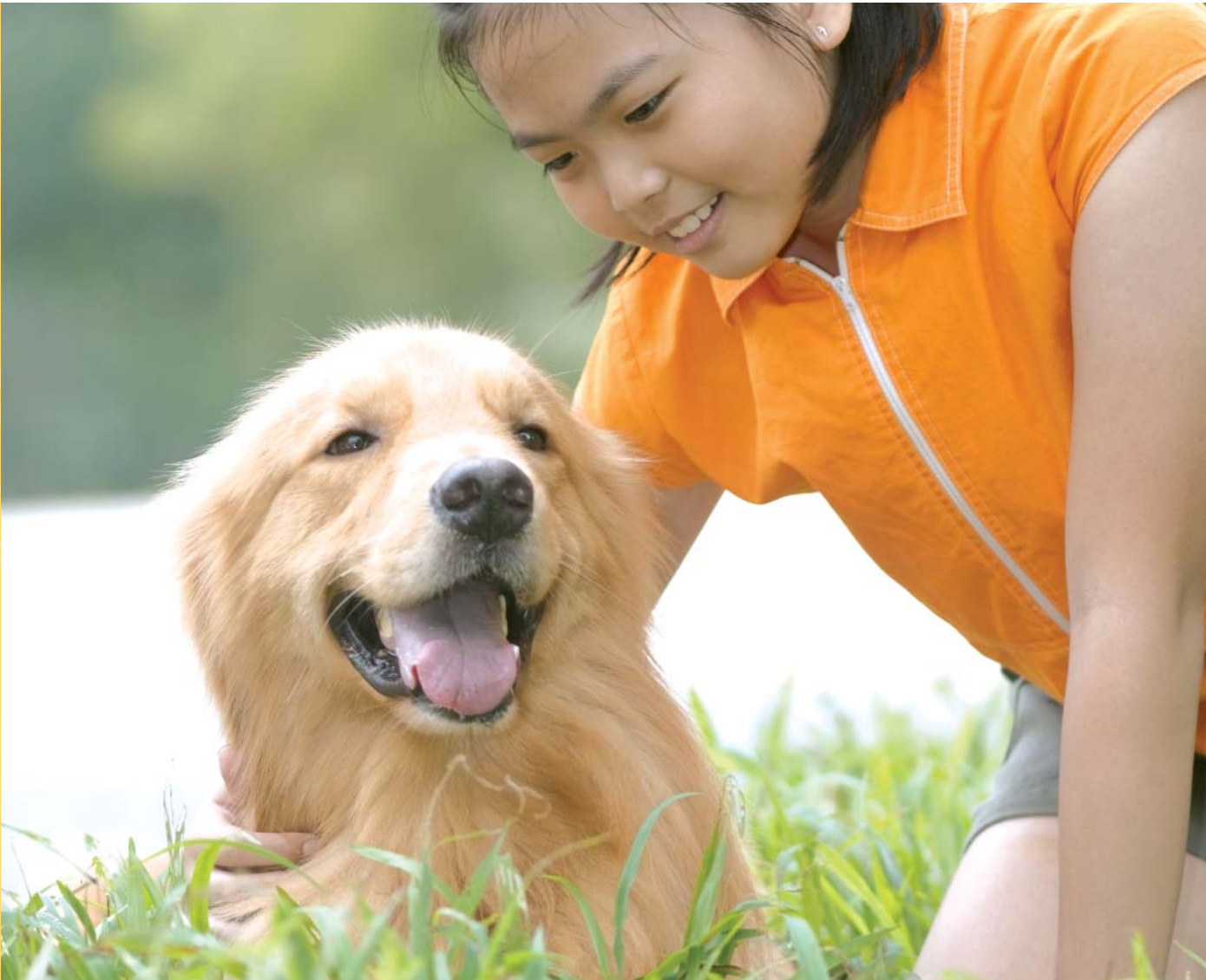
The population of dogs and cats has remained fairly stable over the past six years and in 2002, amounted to 13 million. Some 55 million European households own pets – 47 million cats and 60.7 million dogs. The population of smaller pet animals such as guinea pigs, hamsters, budgies and rabbits number 1.5 million each.

In the United Kingdom, just under half of the households in the country own a pet - ranging from the traditionally-popular dogs and cats, to rabbits, exotic snakes and spiders. The population of dogs and cats has remained fairly stable over the past six years and in 2002, amounted to 13 million. Some 55 million European households own pets - 47 million cats and 60.7 million dogs.

According to the Pet Food Manufacturers Association (www.pfma.com), dog ownership has shown a gradual decrease over recent years, with more people living alone, and with more couples both going out to work. Urban and modern working lifestyles favour the free living, independent cat over the more dependent dog. Cat ownership is greater in the more urban South of England in owner-occupied dwellings. There is also a growing trend favouring unusual or exotic animals. Snakes, reptiles and tropical fish are all growing in popularity.

Besides providing companionship, pets play a very important part in today's highly-stressed society.







WORLD HOBBIES

THE PSYCHOLOGICAL ROLE

Pets help to enhance human development. For the child, a pet animal encourages a sense of responsibility, caring and communication. The relationship instills confidence and friendship - qualities that can endure and grow as the child moves on through life. There is clear scientific evidence that children growing up with a pet develop better social skills and have a greater respect for all living things around them, than those who do not have the benefits of pet ownership.

Keeping ornamental fish, for example, serves as a great learning tool for children. It helps them understand about the fragile underwater ecosystem – how different species of fish can live and interact harmoniously and they can responsibly learn to take care of them in order to ensure their survival.

For adults, the pet provides mutual companionship, and the pleasures of caring for the animal gives sheer delight to the pet owner. Besides being a faithful companion, pets play a proactive role in our community -- from catching criminals to enriching the life of terminally ill children. Specially-trained canines, for example, have been known to help disabled people enjoy greater independence and a better quality of life.

Pet therapy is also gaining recognition as a viable and wholesome means to recuperation. In the United Kingdom, pets are allowed to visit children's wards and have brought many smiles and therapeutic comfort to patients. In the United States, more than half of all nursing homes, clinics and hospitals use animals in a therapeutic capacity.

Research has shown that the companionship and unconditional love and support that pets provide are truly invaluable. Case studies all over the world have shown that pets can even help their owners recover and recuperate from really serious diseases such as cancer. It is only now that we are discovering just how much pets can help improve human health.

BENEFITS TO HUMAN HEALTH

With training, pets can help their owners to lead a more normal life, as with the case of guide dogs for the blind. Animals such as "hearing dogs" are trained to help deaf people identify and react to specific signals such as the doorbell, fire alarm and telephone.

Assistance animals also fulfil many other invaluable roles, including working as sheep and cattle dogs, as sniffer dogs used for detection of drugs, tracker dogs, mountain, sea and avalanche rescue animals, and police dogs. It is interesting to talk to the handlers of working animals and to learn that they are still regarded as pets, which have simply been trained for specific purposes.

The coexistence and cohabitation of humans and pets has become an area of investigation in which a growing number of psychologists, scientists, veterinary surgeons and doctors around the world have become interested.

For example, scientists believe that the presence of a pet can lead to a reduction in stress, a decrease in blood pressure and the lowering of anxiety levels. Scientific studies have also shown that the chances of recovery among heart patients who have pets are higher than those who are not pet owners.

Tests have revealed that stroking dogs and cats can lower the blood pressure and heart rate of the human. This may be related to the simple fact that caring for certain pets introduces added responsibilities, such as having to go out to exercise a dog, shopping and generally leading a more active life. Pet owners have often confessed that it is the dog, which makes them exercise. Walking the dog also leads to many conversations and social interactions that might otherwise not have taken place.



WORLD HOBBIES





PET FOODS

As with any living thing, proper nutrition is absolutely crucial in ensuring that our pets are healthy and well taken care of. That is a fundamental responsibility of any pet owner regardless of what they keep – be it ornamental fish, dog, cat, hamster, iguana, snake or spider.

Feeding fish, for example requires education and understanding. Many people think that to show love and care to their pets, they have to continually feed them. Overfeeding is guaranteed to pollute the tank and kill its inhabitants.

Different fish have different needs. It is our job as caregivers to see that these needs are being met. All fish, from the common Goldfish to the rarest African Cichlids need variety in their diets.

Nowadays, fish food comes in various forms for a variety of fish such as colour enhancing vegetable pellets for fancy goldfish and frozen meat pellets for South and Central American cichlids. The market for tropical fish food is quite large and there are foods for many different types of fish.

Today, a majority of US households have at least one pet cat or dog. In 2003, there were 60 million pet dogs and 75 million pet cats. These pets are more than just animals sharing our homes; they are members of the family, and require and deserve the best.

The first commercially prepared pet food was a dog biscuit introduced in England about 1860. Since then, pet foods have expanded to include canned, dry and semi-moist foods to meet a wide variety of nutritional needs. Pet owners today have a tremendous choice of products to choose from but all pet foods have one thing in common: years of effort and research have gone into each and every commercially produced pet food product in the United States to ensure it provides the proper nutrition for your pet dog or cat.

In the past, animals were kept for work and owners usually fed them on table-scraps, resulting in a host of health problems such as bone disorders, and liver and digestive tract diseases.

Nowadays, there is a unique emotional bond between humans and pets, and these animals have taken on a more important social role. People are more aware of their own health and wellness, and this awareness has transcended to their pets. Quality and safety, nutritional balance and palatability, variety and value for money, pet owner demands and convenience - these important elements for pets and their owners are paramount for the pet food industry worldwide.

Chairman's Message 主席致词

My dear shareholders

Qian Hu has reached another challenging milestone in our corporate history as we launched forward with an aggressive retail chain store strategy all over Asia.

We feel that this front-end integration, along with our tried-and-tested business of ornamental fish distribution, Dragon Fish breeding, and manufacturing of aquarium and pet accessories, is absolutely crucial in a global business environment that is continually evolving, even as we speak.

With rising affluence in many countries in the world, particularly in Asia, the trend of keeping pets has increased in popularity – not just fish, dogs and cats, but exotic animals as well. Modern lifestyles, with its stress and anxieties intact, have been the impetus for many people around the world to turn to keeping pets, not just as a fleeting hobby, but as a long-term lifestyle.

In Singapore, and major cities around Asia, pet stores are sprouting all over and pet owners are snapping up pet foods, vitamins, supplements and accessories to ensure that their pets stay healthy and happy.

And that's not all – dog groomers and animal veterinarians are doing brisk business and are very much a part of the holistic retail scene, thanks to the emerging trend of a one-stop, fully-integrated pet lifestyle store.

That's the model that Qian Hu is adopting in our retail chain stores, brand-named "Qian Hu - The Pet Family" in Shanghai, Nanjing, Kuala Lumpur, Batu Pahat, Bangkok and Bandung. It is our goal to own and operate about 100 stores by 2008 subject to our progress.

亲爱的股东们

随着我们积极在亚洲各地开拓零售连锁店，仟湖已经迈入了公司的历史上又一个兼具挑战性的新的里程碑。

我们觉得这种与终端销售整合的模式，与我们已成熟的观赏鱼批发，龙鱼饲养，水族器材和宠物配件的分销与制造业务，在一个不断发展的全球化经营环境下是绝对重要的。

随着世界各地，特别是在亚洲，饲养宠物的浪潮不断提升，不仅是鱼，狗和猫，一些奇异的动物的受欢迎程度也不断提高。现代的生活方式所带来的压力和焦虑，成为很多人开始饲养宠物的因素，而饲养宠物绝不仅仅是一种暂时性的爱好，而是一种长期的生活方式。

在新加坡以及亚洲的主要城市，宠物店正如雨后春笋般在四处林立，宠物主人积极争相购买宠物食品，维生素，添加剂和配饰以确保他们的宠物生活得健康快乐。

不仅如此，由于一站式的宠物时尚店的兴起，狗儿装饰品制造商和宠物兽医也在扩大其经营，以成为这个整体零售链条中的一环。

这就是仟湖经营的零售连锁店所采用的模式，这些连锁店被统一命名为“仟湖宠物乙家族”，已分别设立在上海，南京，吉隆坡，峇株巴辖，曼谷和万隆。我们的目标是根据我们的进展情况，在2008年前拥有大约100家这一类连锁店。



Some people feel that this is a very risky move – developing new, foreign markets that do not have proven business models in the retail of aquarium and pet accessories. Others have noticed the fluctuations in our operating profit from quarter to quarter caused by the incurrence of higher pre-operational expenditure as a result of these investments.

What I can assure you is the Board has deliberated over this new investment in great detail, and we have come to one conclusion – we either take the plunge now, or risk losing our market leadership, or worse still, languish in mediocrity!

If you will take a leaf from our corporate history, you will realize that Qian Hu's success today arose from the cinders of two very painful business failures. Our success today is really about taking calculated risks.

Our retail business adds an important link to our total value chain and is crucial if Qian Hu is to continue its revenue and profitability growth to greater levels of achievement.

Financial Highlights

During the year in review, our Group turnover dipped 3.2% to \$65.5 million as a result of lower demand for ornamental fish as well as aquarium and pet accessories against a backdrop of keen regional competition, namely in the Singapore and Malaysia markets.

Our Group's net profit attributable to shareholders dipped significantly by 76.8% to \$1.6 million for the full year as a result of keen competition in Singapore and Malaysia; inefficiency and relocation costs incurred by our factory in Guangzhou and the pre-operational expenses and initial operating losses incurred by our new retail chain stores in Shanghai, Nanjing, Kuala Lumpur, Batu Pahat, Bangkok and Bandung.

有一些人会觉得在国外开展未被确认的新的零售商业经营模式是个很具风险的步骤。更有一些人则注意到我们每季度经营利润方面出现的波动，这些波动是由于开设连锁店较高的前期投资额所造成的。

我可以向你们保证的是董事会已经为此项新的投资进行深入的探讨，我们得出的唯一结论是——我们要不就得现在投身进去，要不便可能冒着丧失其市场领导者地位的风险，甚至更惨，在平庸中衰退。

如果你们从我们公司的历史中一瞥，你们会意识到仟湖今天的成功是建立于两次非常痛苦的经营失败的废墟上。我们今天的成功正是若干次冒险经历的结果。

我们的零售连锁店业务为我们整体价值链增加了一个重要的环节，它会使得仟湖的年收入和利润继续增长。

财务概要

在过去一年中，集团营业额与去年同期比下降3.2%至\$6550万元，这是由于新加坡和马来西亚市场在激烈的区域竞争下，导致观赏鱼和水族宠物配件需求下降。

集团的可分配净利润则下降了76.8%，全年为\$160万元。这是由于新加坡和马来西亚市场激烈的竞争，加上我们广州工厂的效益偏低与迁厂费用加大成本，以及在上海，南京，吉隆坡，峇株巴辖，曼谷和万隆开设的连锁店的前期费用与初期亏损所造成的。



Awards

This year, we were again fortunate to have won the Most Transparent Company Awards for the fourth consecutive year – in the Mainboard Small Caps category, as well as runner-up in the Services/Utilities/Agriculture category.

Qian Hu was also the first SME to win the Singapore Quality Award which is given to companies who satisfy the rigorous assessments conducted by Spring Singapore based on the quality of top management's leadership, our planning procedures, and effective use of data to drive business. Our commitment to research and development, particularly in the DNA coding of Dragon Fish as well as technological breakthroughs such as the development of the first automated system for fish packing, were also recognised.

Dividends

Our policy has always been, and will always be, to declare a dividend when we are reasonably profitable.

As we have already embarked on an aggressive expansion initiatives since last year, we would need to retain cash to meet our investment requirements. As such, the Board has decided not to declare any dividends this year.

Business Prospects

Ornamental Fish

Based on our latest financial results, you would notice that our ornamental fish business continues to be an important core activity, and the main profit contributor of the Group. We assure you that we will continue to export more fish to more customers and countries around the world. Dragon Fish continues to see surging

奖励

本年度，我们荣幸第4年获得“最透明公司奖”（主板中的小资金类），也还获得了服务/公共事务/农业类别中的亚军。



仟湖也是中小企业集团中第一家获得新加坡素质奖的公司，这个奖项是颁给符合新加坡生产力，标准和创新局制定的从领导能力，策划流程，资讯的应用与分析，员工潜质的全面发展，运作等主要流程，来确定一家企业达到素质的标准。我们对于研究和开发方面的投入也显现在龙鱼DNA的编码运作，以及拥有第一套用于鱼类包装的自动化系统。

分红

我们的政策过去一直是，今后也将是，当我们具有合理的利润时宣布分红。

但由于集团自去年开始正在从事一系列积极的扩张，我们将需要保留现金以满足我们的投资需要。因此董事会决定今年不会分红。

经营前景

观赏鱼

从我们最新的业绩中，你会注意到观赏鱼业务继续是我们一个重要的核心业务，也是集团的主要利润来源。我们向你们保证我们将会继续



demands particularly in China, Taiwan and Japan. Our research collaboration with Temasek Life Sciences Laboratory will help in facilitating the increase in Dragon Fish production in our farms in Singapore and Malaysia to meet market demand.

Accessories

To capture more within the value chain, we have doubled the capacity of our Guangzhou factory in 2004 to meet increasing demand for accessories from regional subsidiaries within the Group, as well as to attract more OEM business from around the world. We expect to see improvement in, both turnover and profit in FY2005.

Retail Chain Stores

The process of professionalising a highly-fragmented retail market by establishing a retail chain offering better services, a wider product range and a more visually-stimulating shopping environment, will take a longer gestation period to conclude results. This is however, a crucial initiative to enhance our market position and secure our future growth potential.

We have every reason to believe that our business expansion plans will serve us well in the long term, albeit with a bit of uncertainty in the short term. The future of the Group indeed depends on how we are able to create value in all of our business segments, both front-end and back-end. As we are very much a business riding on the wave of increasing consumer spending in Asia and the rest of the world, our continued success will largely depend on how we can tap on markets with the potential for consumer spending, as well as captive markets held by people who truly look at pets as a long-term commitment and lifestyle.

出口更多的鱼到世界上更多的国家给更多的顾客。龙鱼会继续的面对持续增长的需求，尤其是在中国，台湾和日本。我们与淡马锡生命科学实验室合作进行对于龙鱼繁殖习惯的研究将会帮助提高我们在新加坡与马来西亚鱼场的龙鱼产量，以满足集团在今年和未来对龙鱼因应不断增长的需求。

器材

为了能在价值链中获取更多的回报，我们已于2004年把我们广州工厂的生产能力提高了一倍，以满足集团各地区的子公司对自产器材不断增长的需求，同时也积极吸引来自世界各地更多的OEM业务。我们期望在2005年能够在销售额和利润上取得相应的提高。

零售连锁店

将一个高度零散的行业，透过在一个只有视觉感染力的购物环境中提供更好的服务，更全面的产品种类，更专业化的经营，以提供给宠物爱好者一个与众不同的，更有趣味的购物经验的整合的过程将需要很长的期间才能看到成果。但这对于加强扩展我们的市场地位和保证未来的增长潜力是极具关键性的。

我们所有的理由相信我们的业务扩展计划尽管在短期会有各种不确定因素，但它将会带给我们长远的好处。集团的未来则取决于我们怎样能够在我们的各项业务中创造价值，既包括前端部门也包括后端部门。因为我们是一家极依靠亚洲和世界各地消费者的消费习惯的企业，我们的持续的成功将会在很大程度上依赖于我们对于具有消费潜力的市场如何作出反应，以及对于那些真正把宠物作为长期生活方式的人们所持有的固定市场如何作出反应。



Conclusion

In a nutshell, our export network of more than 60 countries from our base of 5 countries, namely, Singapore, Malaysia, Thailand, Indonesia and China, gives us the market reach and the requisite variety of ornamental fish that is required of any global operations.

Meanwhile, our capabilities in breeding high-quality Dragon Fish enhances our ability to create high value products for a fast growing economy such as China.

Our chain stores not only allows us to own the end consumers but also provides us the information about the latest trends in the market. This in turn provides vital market information for our factory in Guangzhou to produce exactly what the market needs in terms of aquarium and pet accessories.

As such, we expect our Group to remain profitable in year 2005, despite possible fluctuations in operating profit from quarter to quarter.

Special Mentions

This has indeed been a very challenging year for Qian Hu, and I have all of our investors and shareholders to thank for being so patient with us, and giving us time to transform our business model so as to build an enterprise that lasts.

All of us at Qian Hu have worked very hard to make sure this business model works and I would like to thank all of my colleagues throughout the Group for their tireless effort.

My deep gratitude to my fellow Directors for their notable contributions and advice, as well as our customers, suppliers and business associates.

Have a fantastic year ahead!

总结

简单的说, 我们能从五个国家, 分别是新加坡, 马来西亚, 泰国, 印尼和中国为基地面向超过六十个国家的出口分销网络, 我们能够满足任何所需的观赏鱼市场并能触及各样需求, 且种类多样化.

同时, 我们也增强繁殖高质量龙鱼的能力, 以便有能力为一个如中国那样快速成长的市场制造高价值的产品.

我们的连锁店不仅使我们直接拥有终端消费者, 还能提供给我们关于这个市场中的最新流行趋势的信息. 这也能为我们广州的工厂提供有关市场上所需的水族器材的相关信息.

因此, 我们期望集团在2005年能够继续保持获利, 尽管每季度的经营利润可能会有所波动.

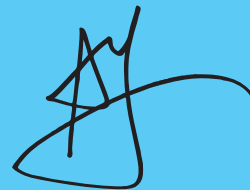
致谢

这确实是仟湖最具挑战意义的一年, 我衷心的感谢我们的投资者和股东们这样耐心的和我们分享这一切, 并给我们时间把我们的业务模式进行转型以建立一个能够长期发展的企业.

我们仟湖的所有同仁也一直努力工作来确保这个经营模式能够正常运作, 我仅向全集团所有的同事们的努力表示感谢.

我也向董事局的其他成员所付出的贡献和建议致谢, 以及向我们的顾客群, 供应商和有业务往来的机构表示感谢.

愿迈向更美好的一年!



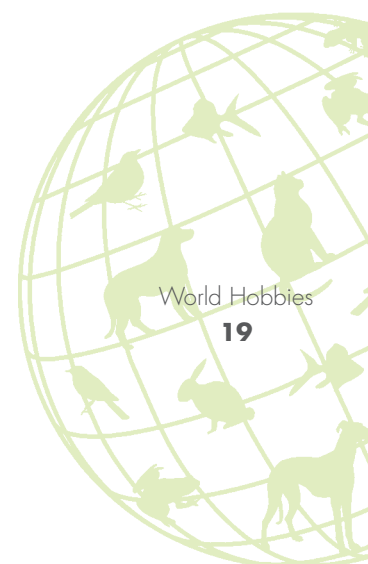
Kenny Yap "The Fish"
Executive Chairman & Managing Director
叶金利 首席执行官董事

Value Added Statement

	2004 \$'000	2003 \$'000
Revenue earned	65,492	67,680
less: Purchase of goods	(49,839)	(48,320)
Gross value added from operations	15,653	19,360
Other operating income	170	202
Exchange (loss) gain	(187)	280
Share of losses of associates	(66)	-
Total value added	15,570	19,842
Distribution:		
To employees in salaries and other related costs	8,940	7,954
To government in corporate and other taxes	1,330	1,872
To providers of capital:		
- Interest paid on borrowings from bank	380	221
Retained for re-investment and future growth		
- Depreciation and amortisation	2,231	1,739
- Accumulated profits	1,627	7,016
- Minority interest	582	754
Non-production cost and income:		
- Bad debts and provision for doubtful debts	480	286
Total distribution	15,570	19,842

Productivity Data

	2004	2003
Number of employees	766	637
Value added per employee (\$'000)	20	31
Value added per \$ of employment cost	1.74	2.50
Value added per \$ sales	0.24	0.29
Value added per \$ of investment in property, plant and equipment	0.55	0.76



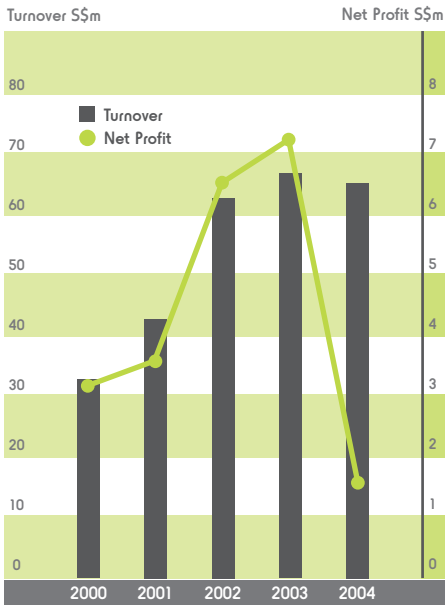
Group Financial Highlights



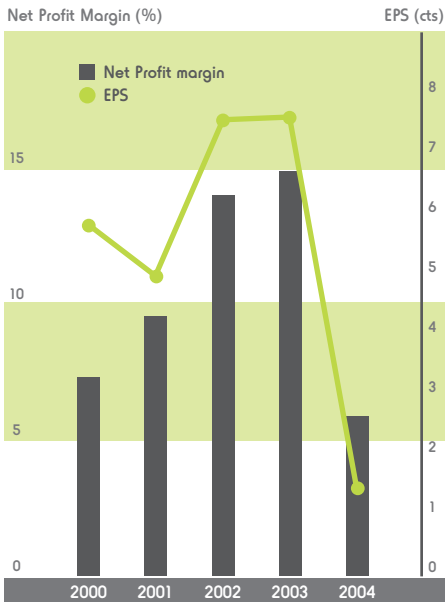
	2004	2003	2002	2001	2000
For the year (\$'000)					
Turnover	65,492	67,680	62,693	41,249	33,903
Earnings Before Interests, Tax, Depreciation and Amortisation (EBITDA)	6,095	11,514	10,041	5,647	5,179
Net Profit Before Tax	3,421	9,554	8,588	4,373	4,081
Net Profit After Tax and Minority Interest (PATMI)	1,627	7,016	6,547	3,558	3,104
Net Profit Margin (%)	2.5%	10.4%	10.4%	8.6%	9.2%
At Year End (\$'000)					
Total Assets	64,882	57,246	43,736	35,315	22,781
Net Tangible Assets	40,545	39,870	28,138	17,135	13,556
Shareholders' Funds	42,390	40,731	28,226	17,233	13,807
Total Liabilities	22,492	16,515	15,510	10,347	7,985
Cash and Cash Equivalent	4,153	4,124	7,821	1,335	3,231
Debt Equity Ratio (times)	0.60	0.45	0.56	0.60	0.65
Per Share					
Earnings Per Share (cents)	1.27	5.55*	6.58	3.88	4.95
Gross Dividend Per Share (cents)	-	0.6	1.2	0.6	0.5
Net Assets Value (cents)	33.1	38.3	27.4	20.8	16.7
Net Tangible Assets (cents)	31.6	37.5	27.3	20.7	16.4
Returns (%)					
Return on Turnover	2.5%	10.4%	10.4%	8.6%	9.2%
Return on Shareholders' Equity	4.3%	19.2%	23.5%	20.7%	22.6%
Return on Total Assets	2.5%	12.3%	15.0%	12.9%	13.6%

* after adjustment for bonus issue in 2004

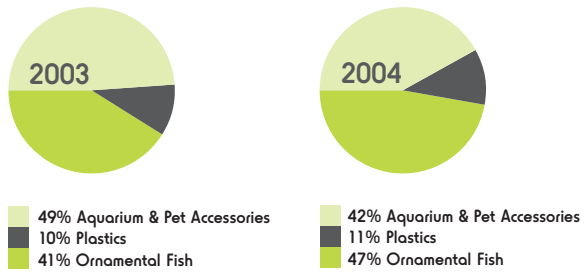
Growth Indicators



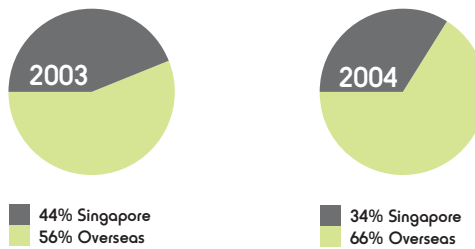
Growth Indicators



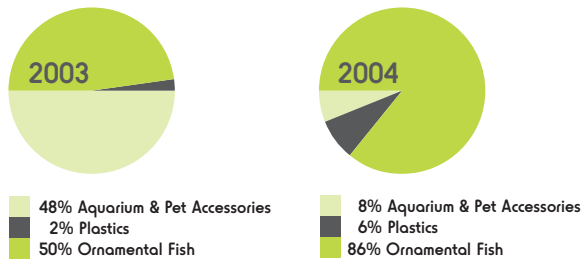
Turnover by Activities (Full year ended 31 December)



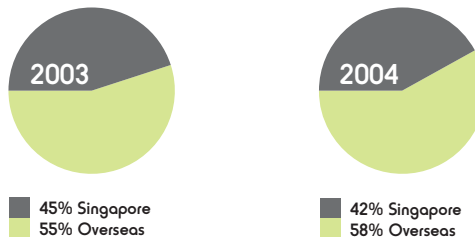
Turnover by Geographical Regions (Full year ended 31 December)



Net Profit by Activities (Full year ended 31 December)



Net Profit by Geographical Regions (Full year ended 31 December)



Board of Directors



1 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 - Public Service Award (PBM) in 2004, Ernst & Young's Service Entrepreneur of the Year Award 2003, 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 the Chairman for the Ornamental Fish Business Cluster initiated by AVA and is a member of the Action Community for Entrepreneurship (ACE).

2 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. He also take charge of the Group's operations in China.

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. 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.

3 Andy Yap Ah Siong

Deputy Managing Director

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

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.

4 Lai Chin Yee

Finance Director

Ms Lai Chin Yee was the Group Financial Controller before assuming her appointment as the Finance Director of Qian Hu Corporation Limited in November 2004. She is responsible for the Group's accounting, finance, treasury and tax functions. Prior to joining the Group, 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 fellow of the Institute of Certified Public Accountants of Singapore.

5 Chang Weng Leong

Independent Director

Appointed in October 2000, Mr Chang Weng Leong serves as Qian Hu's Independent Director. He is currently the Principal Consultant of Alchemy Business Consultants, and has many years of experience in various areas of management - such as quality management, environmental, human resource and business.

Mr Chang is the Chairman of the Remuneration Committee which oversees the remuneration of key executives of the Group. He also plays an active role in overseeing the Group's Human Resources as well as the maintenance and enhancement of the Group's information management systems in Singapore and overseas, especially in assisting new entities within the Group establish their Management Information System seamlessly.

Mr Chang holds a Masters of Science degree in Mechanical Engineering from the National University of Singapore.

He 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.

6 Robson Lee Teck Leng

Independent Director

Mr 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 was appointed in Oct 2000 as an Independent Director and the Chairman of the Audit Committee of Qian Hu Corporation Limited. He runs an active practice advising corporate issuers in a number of industries ranging from high-tech, food and beverage, speciality chemicals and pharmaceuticals, and their underwriters in fund-raising and stock market flotations. He is also the Secretary of the Board of Governors of Hua Chong Institution and Hwa Chong International School 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. Robson also sits on a number of other listed companies as Independent Director.

7 Tan Tow Ee

Independent Director

Mr Tan Tow Ee was appointed in May 2002 as an Independent Director of Qian Hu Corporation Limited.

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).

He is the Chairman of the Nominating Committee which assesses the Board's performance and effectiveness as well as the independence of directors. Also the Chairman of the Branding Committee, Mr Tan plays a pivotal role in developing Qian Hu's brand name into the region.

Senior Management



1 Low Eng Hua

Group General Manager
Managing Director
Beijing Qian Hu Aquarium and Pets Co Ltd

Mr Low 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. He holds a Bachelor's degree in Engineering from the National University of Singapore.

2 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 specialises in the rearing and breeding of Dragon Fish and has helped the Group win prizes in international competitions.

3 Thomas Ng Wah Hong

Managing Director
Qian Hu Aquarium and Pets (M) Sdn Bhd

Prior to joining Qian Hu (Malaysia) 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.

4 Jimmy Tan Boon Kim

Managing Director
Thai Qian Hu Company Limited &
Qian Hu Marketing Co Ltd

Prior to his current appointment, 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.

5 Lee Kim Hwat

Managing Director
Qian Hu Tat Leng Plastic Ptd Ltd &
Guangzhou Wan Jiang Technology Co Ltd

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

With effect from July 2004, Mr Lee also handles the day-to-day operations of Guangzhou Wan Jiang and oversees its business activities and system implementation process.

6 Goh Siak Ngan

Managing Director
Kim Kang Aquaculture Sdn Bhd

Mr Goh is the founder of Kim Kang, and has over 20 years of experience in breeding Arowana. In 1992, he started his own farm in Batu Pahat which not only specialised in the breeding of Arowana but Arapaima Gigas and Red Gourami as well.

7 Hendra Suria

Managing Director
PT Qian Hu Aquarium and Pets Indonesia

Mr Suria, who joined the Group in January 2004, is responsible for business development and oversees the daily operations of our subsidiary in Indonesia. He brings to the Group more than 18 years of experience in the ornamental fish business, as well as a strong business network in most provinces in Indonesia.

8 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.

9 Bob Goh Ngian Boon

General Manager
Shanghai Qian Hu Aquarium and Pets Co Ltd

Mr Bob Goh joined the Group in March 2001 as the Sales and Marketing Manager in charge of Mass Market and Pet Products. Prior to joining Qian Hu, Mr Goh was a Brand Manager with YHI Fabian (S) Pte Ltd, and has managed several high-profile FMCG brands such as Del Monte and Glad amongst other international brands. Mr Goh holds a diploma in Business Studies from Ngee Ann Polytechnic.

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

Lai Chin Yee
(appointed on 1 November 2004)

Company Secretaries

Lai Chin Yee

Yeoh Kar Choo Sharon
(appointed on 1 November 2004)

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
(since financial year ended 31 December 2000)

Principal Bankers

The Development Bank of Singapore Ltd

Overseas-Chinese Banking Corporation
Limited

HongKong & Shanghai Banking
Corporation Limited

Malayan Banking Berhad

Group Structure

Qian Hu Corporation Limited

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

Subsidiaries

100%

- Qian Hu Tat Leng Plastic Pte Ltd (Singapore)
- Qian Hu Aquarium and Pets (M) Sdn Bhd (Malaysia)
- Qian Hu The Pet Family (M) Sdn Bhd (Malaysia)
- Beijing Qian Hu Aquarium and Pets Co Ltd (China)
- Shanghai Qian Hu Aquarium and Pets Co Ltd (China)

80%

- Guangzhou Wan Jiang Technology Co Ltd (China)

74%

- Qian Hu Marketing Co Ltd (Thailand)

65%

- Kim Kang Aquaculture Sdn Bhd (Malaysia)

60%

- Thai Qian Hu Company Limited (Thailand)

55%

- PT Qian Hu Aquarium and Pets Indonesia (Indonesia)

49%

- NNTL (Thailand) Limited (Thailand)
(The Group has voting control at general meetings and Board meetings)

Associates

50%

- Jin Jien Hsing Enterprises Co Ltd (Taiwan)

49%

- PLC Pet Safari (Kuala Lumpur) Sdn Bhd (Malaysia)



Financial Calendar

2004

- 12 Jan Media & analysts briefing for FY 2003 results
- 23 Feb Release of Annual Report 2003
- 10 Mar Annual General Meeting
- 2 Apr Payment of final dividends declared for 2003
- 19 Apr Release of 1Q2004 results
- 19 Jul Media & analysts briefing for 1H2004 results
- 25 Oct Release of 3Q2004 results

2005

- 12 Jan Media & analysts briefing for FY 2004 results
- 24 Feb Release of Annual Report 2004
- 18 Mar Annual General Meeting
- Apr Release of 1Q2005 results
- Jul Media & analysts briefing for 1H2005 results
- Oct Release of 3Q2005 results

Qian Hu 2004

28



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, manufacturer or retailer. The fact of the matter is, we are all of the above. Our business model hinges on the 4 visions of growth:

1 Export of ornamental fish and accessories

2 Distribution of ornamental fish and accessories

3 Manufacturing of aquarium and pet accessories

4 Breeding of Dragon Fish

Each of our business segments 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.



Operating and Financial Review

Overview

Qian Hu is an integrated “one-stop” ornamental fish service provider ranging from breeding of Dragon Fish, farming, importing, exporting and distributing of ornamental fish as well as manufacturing of aquarium and pet accessories and distributing them to local and overseas customers.

Currently, Qian Hu has presence in 6 countries, namely, Singapore, Malaysia, Thailand, Indonesia, China and Taiwan, which consists of 10 subsidiaries and 2 associates (collectively known as “the Group”).

The Group’s main business activities can be classified into:

Ornamental fish

The Group engages in the total ornamental fish process, which includes import, export, breeding, quarantine, conditioning, farming and distribution activities. Ornamental fish are imported from countries in South-East Asia, South America and Africa. The Group currently exports over 500 species and varieties of ornamental fish directly to more than 60 countries as well as distributes to local retailers and exporters.

Accessories

The distribution of accessories complements the ornamental fish operations by providing a “one-stop” shop to meet customers’ aquarium needs. The Group distributes more than 5,000 types of aquarium and pet accessories for more than 20 major manufacturers and principals to local retailers and to wholesalers in Asia, including supermarkets operated by NTUC FairPrice, Cold Storage, Carrefour, Lotus and Tesco, etc.

In addition, the Group has developed its own brands of aquarium and pet accessories under the name “Ocean Free”, “Delicate”, “BARK” and “ARISTO-CATS YI HU”. The Group also has production facilities in Guangzhou, China to manufacture aquarium and pet accessories for the Group as well for third parties.

Plastic bags

As an ancillary business, the Group manufactures plastic bags for its own use in the packing of ornamental fish for sale in a separate factory located in Woodlands. The plastic bags are also supplied to third parties in the ornamental fish, food and electronics industries.





Vision Objectives

To be the world's Number 1 ornamental fish exporter

Qian Hu is the only ornamental fish company in the world to be able to export fish from 5 countries, namely Singapore, Thailand, Malaysia, Indonesia and China. The Group will continue to export more fish to more customers and countries all over the world from these 5 countries, so as to become the world number 1 exporter in time to come.

To expand "Qian Hu - The Pet Family" throughout Asia

Qian Hu is in a process of professionalizing a highly fragmented ornamental fish and aquarium & pets accessories retail market by setting up our retail chain stores throughout the region under the name, "Qian Hu - The Pet Family", which provide better services, a wider product range in a visually-stimulating shopping environment, and thereby offering hobbyists and customers a different and more enjoyable shopping experience. The Group has set up 10 stores in FY 2004, with plans to expand to more than 100 stores within the next 5 years.

To be the top 3 manufacturers of aquarium accessories in China

The Group's Guangzhou manufacturing base, which has more than doubled its production capability by moving into a bigger factory in FY 2004, aims to emerge as one of the top 3 manufacturers in China for aquarium accessories.

To be the most profitable Dragon Fish breeder

Qian Hu's collaboration with Temasek Life Sciences Laboratory in researching the breeding behaviour of Dragon Fish will enable to increase the production of Dragon Fish in the farms. This will enhance the Group's ability to ride the growth in demand for Dragon Fish and improve the profitability for Dragon Fish sales.



Financial Performance

	2004 \$'000	2003 \$'000	Change %
Selected profit and loss data			
Turnover			
- Ornamental fish	31,180	27,466	13.5
- Accessories	27,307	33,646	(18.8)
- Plastics	7,005	6,568	6.7
Total turnover	65,492	67,680	(3.2)
Less : Cost of sales	(42,538)	(42,312)	0.5
Gross profit	22,954	25,368	(9.5)
Add : Other operating income	170	202	(15.8)
Less : Operating expenses	(19,637)	(16,016)	22.6
Operating profit	3,487	9,554	(63.5)
Add : Share of associates results	(66)	-	NM
Profit before taxation	3,421	9,554	(64.2)
Less : Taxation	(1,212)	(1,784)	(32.1)
Less : Minority interest	(582)	(754)	(22.8)
Profit after taxation	1,627	7,016	(76.8)
Selected balance sheet data			
Total assets	64,882	57,246	13.3
- Property, plant and equipment	14,061	12,897	9.0
- Brooder stocks	6,926	7,338	(5.6)
- Inventories	21,632	16,216	33.4
- Trade receivables	13,674	13,120	4.2
- Cash and cash equivalents	4,130	4,124	0.1
Total liabilities	22,492	16,515	36.2
Total shareholders equity	37,629	36,551	2.9
Capital expenditure	3,017	1,826	65.2



TURNOVER

Turnover by business activities

\$'000	Fish		Accessories		Plastics		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
1st Quarter	7,171	6,307	7,462	8,004	1,616	1,631	16,249	15,942
2nd Quarter	9,509	6,767	6,762	8,871	1,739	1,625	18,010	17,263
3rd Quarter	7,140	7,602	6,704	8,541	1,865	1,656	15,709	17,799
4th Quarter	7,360	6,790	6,379	8,230	1,785	1,656	15,524	16,676
Total	31,180	27,466	27,307	33,646	7,005	6,568	65,492	67,680

Turnover by geographical location

\$'000	Singapore		Overseas		Total	
	2004	2003	2004	2003	2004	2003
1st Quarter	6,198	7,911	10,051	8,031	16,249	15,942
2nd Quarter	5,278	7,902	12,732	9,361	18,010	17,263
3rd Quarter	5,526	7,193	10,183	10,606	15,709	17,799
4th Quarter	4,434	6,735	11,090	9,941	15,524	16,676
Total	21,436	29,741	44,056	37,939	65,492	67,680

For the year ended 31 December 2004, the ornamental fish and accessories activities continued to be the Group's core activities, which together accounted for 89% of total turnover. The Group's turnover decreased by \$2.2 million or 3.2% from \$67.7 million for the year ended 31 December 2003 to \$65.5 million for the year ended 31 December 2004.

Ornamental fish

Turnover from ornamental fish increased by 13.5% or \$3.7 million from \$27.4 million in FY 2003 to \$31.1 million in FY 2004. The Group's overseas operations in Thailand and Malaysia (Kim Kang Aquaculture Sdn Bhd), together with the newly acquired subsidiary, PT Qian Hu Aquarium and Pets Indonesia, managed to expand their customer base and distribution network to achieve higher turnover throughout the year. In addition, the Group exported ornamental fish to more countries around the world from Singapore during the year.

The above increase, however, was partially offset by the reduction in the domestic demand of ornamental fish as the local market was in the process of consolidation since the second half of 2003 as well as lower sales of ornamental fish recorded by our Malaysia fish division during the year.

Accessories

The lower demand from the domestic and Malaysia market has also led to a reduction in accessories sales locally and in the Malaysia subsidiary, which resulted in a dip in accessories turnover by \$6.3 million or 18.8% in FY 2004 as compared to FY 2003.



Plastics

Operating conditions for the plastics activities remained competitive. The Group managed to sustain its turnover in FY 2004. The Group will continue to focus on generating sales through selling more high-yielded items while looking at other new channels to expand its current market share domestically and overseas.

On a geographical basis, turnover from Singapore dipped by 24.6% mainly as a result of decrease in sales of ornamental fish and aquarium accessories to local retailers due to lower demand coupled with keen competition. Turnover from overseas grew by 13.5% in FY 2004 as compared to FY 2003. Both the Singapore and overseas operations' constant effort in expanding our distribution network into overseas untapped markets contributed to the increased in overseas turnover.

OPERATING EXPENSES

The breakdown of operating expenses is set out as follows:

	2004 \$'000	2003 \$'000	Change %
Staff cost			
Directors' fees and remuneration	1,171	913	28.3
Salary and related cost	6,778	5,987	13.2
Provident Fund contribution	550	608	(9.5)
Staff welfare benefits	411	416	(1.2)
Total staff cost	8,910	7,924	12.4
Premises and equipment			
Depreciation of fixed and biological assets	2,082	1,654	25.9
Rental of premises	694	608	14.1
Upkeep, repair and maintenance	902	801	12.6
Total premises and equipment	3,678	3,063	20.1
Selling expenses	2,465	1,829	34.8
Interest expenses (net)	377	214	76.2
Bad debts and provision for doubtful debts	480	286	67.8
Exchange loss (gain)	187	(280)	166.8
Utilities	683	585	16.8
Consultancy and professional fees	443	511	(13.3)
Other operating expenses	2,414	1,884	28.1
Total operating expenses	19,637	16,016	22.6
Group staff strength	766	637	20.3



The Group's operating expenses increased by 22.6% or \$3.6 million, mainly due to increase in staff cost, the largest expense component, by \$1 million or 12.4% as a result of the increase in headcount. In addition, there is an increase in promotion costs incurred in relation to the newly set up retail chain stores throughout the region in FY 2004.

The increase in other expenses category is in line with the expansion of the Group's operations (including expenses incurred by new entities acquired during the year).

PROFITABILITY

Profit by business activities

\$'000	Fish		Accessories		Plastics		Unallocated corporate expenses		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
1st Quarter	985	617	658	1,411	104	60	(238)	(388)	1,509	1,700
2nd Quarter	2,014	1,339	412	1,334	46	132	(430)	(316)	2,042	2,489
3rd Quarter	585	1,472	(916)	1,278	84	33	(491)	(277)	(738)	2,506
4th Quarter	719	1,905	133	1,218	75	31	(253)	(295)	674	2,859
Total	4,303	5,333	287	5,241	309	256	(1,412)	(1,276)	3,487	9,554

The Group's operating profit decreased by \$6.0 million or 63.5% to \$3.5 million in FY 2004 as compared to \$9.5 million in FY 2003. Profit after taxation decreased by 76.8% from \$7.0 million for the year ended 31 December 2003 to approximately \$1.6 million for the year ended 31 December 2004. Our fish business was the main profit contributor in FY 2004.

Ornamental fish

The Group's operating profit from the ornamental fish activities decreased by \$1.0 million or 19.3% from \$5.3 million in FY 2003 to \$4.3 million in FY 2004 mainly due to a valuation placed on our breeder stock (off-springs of existing brooder stocks) of approximately \$1.5 million in FY 2003. The gain arising from changes in fair value attributable to changes in breeder stock amounted to \$228K in FY 2004.

After taking the above into consideration, the ornamental fish profitability increased marginally due to the difference in sales mix and the higher sales recorded.

Accessories

The significant reduction in profitability from the accessories activities by approximately \$5 million or 94.5% in FY 2004 as compared to FY 2003 was due to:

- lower turnover recorded from the accessories business due to the lower demand from the domestic and Malaysia market as these markets were in the process of consolidation since the second half of 2003, coupled with a reduction in gross profit margin yielded due to keen competition
- losses incurred by the Guangzhou factory due to production inefficiency and down-time as a result of its relocation to a new site and the continuous expansion in the first and second quarter of 2004
- write off of pre-operational costs and initial operating losses incurred by the retail chain stores set up throughout the region during the year





Plastics

Operating profit from the plastic business improved in FY 2004 as the Group made conscientious effort to contain its operating costs and to focus on selling products with better margin yielded.

TAXATION

The tax charge for the prior year was lower than the statutory tax rate as the Company has qualifying income, which is subject to a concessionary tax rate of 10% from its IHQ status for a period of 5 years commencing 1 January 2003.

Despite applying the concessionary tax rate on its qualifying income this year, the tax charge for the current year is higher than the amount obtained by applying the statutory tax rate on profit before taxation mainly due to:

- (i) losses incurred by some subsidiaries which cannot be offset against profits earned by other companies in the Group. However, these losses are available for set-off against future profits of the respective subsidiaries subject to the agreement of the revenue authorities; and
- (ii) varying statutory tax rates of different countries in which the Group operates.

Cashflows and Liquidity

CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents remained at \$4.1 million as at the end of both financial years. The movement in cash and cash equivalents is set out as follows:

	2004 \$'000	2003 \$'000
Cash (used in) generated from operating activities	(3,120)	987
Cash used in investing activities	(2,863)	(3,669)
Cash generated from (used in) operating activities	6,012	(1,014)
Net increase (decrease) in cash and cash equivalents	29	(3,696)

The Group's net cash generated from operating activities deteriorated for the year ended 31 December 2004 mainly due to:

- reinvestment of funds into inventories purchases for our various overseas retail chain stores expansion which has commenced operations since end March 2004
- our deliberate effort to settle outstanding debts and retire bills payable to banks earlier than its tenure as and when surplus funds are available in order to secure better purchasing terms and reduce financing costs

Net cash used in investing activities mainly relate to:

- payment made for the acquisition of PT Qian Hu Aquarium & Pets Indonesia of \$475K in January 2004 and an additional 20% equity interest in Guangzhou Wan Jiang Technology Co., Ltd in April 2004
- capital expenditure incurred for infrastructure and farm facilities in both the Singapore and



overseas entities as well as for the expansion of production capacity in the Guangzhou factory and the setting up retail chain stores throughout the region

Net cash generated from financing activities was mainly from the cash proceeds received from the drawdown of bank loans granted by the financial institutions to finance the Guangzhou factory expansion and the setting up of retail chain stores throughout the region.

The amount, however, is partially offset by loans repayment made to the minority shareholders of subsidiaries and the settlement of finance lease obligations on a monthly basis, as well as the payment of final dividend of \$511K in April 2004.

INDEBTEDNESS

The amount of Group's borrowings for the both financial years is as set out below:

	2004 \$'000	2003 \$'000
Due within 1 year:		
Bills payable to banks		
- secured	395	-
- unsecured	894	1,950
Finance lease obligations	321	313
Short term bank loans (unsecured)	7,295	241
Long term bank loans, current portion (secured)	145	208
Bank overdraft (secured)	-	103
	9,050	2,815
Due after 1 year:		
Finance lease obligations	437	651
Long term bank loans (secured)	1,046	933
	1,483	1,584
Total Indebtedness	10,533	4,399
Debt-to-Equity ratio	0.60	0.45

The increase in bank term loans balances was due to additional bank borrowings obtained from financial institutions to finance the Group's overseas expansion.

The unsecured short-term bank loans are revolving bank loans which bore interest at rates ranging from 3.13% to 3.94% (2003: 5.3%) per annum.

The secured long-term loans comprise:

- an 8-year bank loan of \$1.1 million which bears interest at 7.9% (2003: 7.9%) per annum and is repayable in 96 monthly instalments commencing July 2003; and
- a 7-year bank loan of \$0.2 million which bears interest at 7.75% (2003: Nil) per annum and is repayable in 84 instalments commencing January 2005.



The long-term bank loans are secured by a mortgage on a subsidiary's freehold land and building while the bills payable and bank overdraft are secured by a mortgage on a subsidiary's freehold land.

As at 31 December 2004, there were corporate guarantees given by the Company to banks for banking facilities extended to subsidiaries amounting to \$4.0 million (31/12/2003: \$2.1 million). In addition, corporate guarantee of \$132,000 (31/12/2003: \$138,000) was given by one of the subsidiaries to a bank for credit facilities granted to an associate. As at 31 December 2004, approximately \$1.19 million had been utilised as shown in the above table.

In addition to the above, the Group has non-cancelable operating lease commitments relating to the premises for the fish farms in Singapore and China, office and factory premises for its local and overseas subsidiaries amounted to \$0.9 million as at 31 December 2004, of which \$0.3 million is due within 12 months.

Risk Factors & Risk Management

BUSINESS RISK

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. The Group has institutionalised a comprehensive health management and quarantine system for all the domestic and overseas operations to ensure a consistently high standard of good health care management and hygiene for the fishes. Currently, all of the Group's domestic and overseas fish operations have attained ISO 9002 certification.

PRODUCT RISK

For the year ended 31 December 2004, the Group's Dragon Fish sales contributed approximately 23% of its ornamental fish sales and approximately 10% of the Group's total turnover. The Group sells over 500 species and varieties of ornamental fish and more than 5,000 types of accessories to more than 60 countries and is not reliant on the sale of any particular type or specimen of fish and accessories.

OPERATIONAL RISK

Operational risk is the potential loss caused by a breakdown in internal process, deficiencies in people and management, or operational failure arising from external events. The operational risk management process is to minimise unexpected losses and manage expected losses. The Group currently operates in 6 countries with assets and activities spreading across the Asia Pacific. As at 31 December 2004, 63% of the Group's assets are located overseas as compared to 57% in FY 2003. Turnover from overseas' customers has also increased from 56% in FY 2003 to 66% in FY 2004.

In view of the Group's expansion plan, the percentage of its overseas assets and activities will continue to increase moving forward, thereby the effect of greater geographical diversification. A boarder base of significant customers will reduce the risk of concentration in a single operation.



INVESTMENT RISK

The Group grows its businesses through organic growth of its existing activities, development of new capabilities (e.g. setting up retail chain stores) and through acquisitions of operating business entities. Investment activities are evaluated through performing of due diligence exercise and are supported by external professionals' advices. All business proposals are reviewed by the Company's Board of Directors and its senior management before obtaining final Board approval.

INTEREST RATE RISK

The Group's cash balances are placed with reputable banks and financial institutions. Additional financing are obtained through bank borrowings and finance lease arrangements. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

LIQUIDITY RISK

The objective of liquidity management is to ensure that the Group has sufficient funds to meet its contractual and financial obligations. To manage liquidity risk, the Group monitors its net operating cashflow and maintains a level of cash and cash equivalents deemed adequate by management for working capital purposes so as to mitigate the effects of fluctuations in cash flows.

FOREIGN EXCHANGE RISK

The foreign exchange risk of the Group arises from sales, purchases and borrowings that are denominated in foreign currencies. The currencies giving rise to this risk are primarily US dollar, Euro and Japanese Yen.

The Group does not have any formal hedging policy against foreign exchange fluctuations. However, the Group continuously monitor the exchange rates of the major currencies and enter into hedging contracts with banks from time to time whenever the management detect any movements in the respective exchange rates which may impact on the Group's profitability.

Foreign currencies received are kept in foreign currencies accounts and are converted to the respective measurement currencies of the group companies on a need-to basis so as to minimise the foreign exchange exposure.

CREDIT RISK

Credit risk is managed through the application of credit approvals, setting credit limits and monitoring procedures.

None of the customers or supplies contributes more than 5% of the Group's turnover and purchases. It is the Group's policy to sell to a diversity of creditworthy customers so as to reduce concentration of credit risk. Cash terms, advance payments are required for customers with lower credit standing. Accordingly, the Group does not expect to incur material credit losses on its risk management or other financial instruments.

DERIVATIVE FINANCIAL INSTRUMENT RISK

The Group does not hold or issue derivative financial instruments for trading purposes.



Investment for the Future

The Group's future growth depends on its ability to extract maximum potential from the overseas network and see them move from gestation to maturity both in the ornamental fish and accessories segment.

Accordingly, the Group has engaged in the following activities to enhance its competitiveness so as to achieve its vision objectives:

HUMAN RESOURCES

The biggest challenge for Qian Hu is always to get enough talent to execute its expansion plan. Therefore, the Group has formulated the following human resource strategies:

- Competitive employee: Designing innovative and flexible recruitment and retention strategies that effectively position Qian Hu as an employer of choice.
- Competent resource: Build a robust and effective manpower planning system, particularly to support company's globalization and customer centric business direction and objectives.
- Learning and thinking Workforce: Fostering a culture of learning, innovation, creativity, and continuous improvement in a team based environment.
- Family culture environment: Promoting and inculcating a one big family culture, resulting in an integral bond of trust and integrity to everything we do.
- Management trainee scheme: Management trainees recruited for posting to various countries under the supervision of senior managers. They will eventually form the core group of the succession team.

R&D PROJECT

The Group believes that in order to be ahead of the pack, it must excel in know-how. In the coming years, it is envisaged that an increasing demand for Dragon Fish in the region. The Group's position as an integrated fish service provider will be further strengthened by its recent collaboration with Temasek Life Sciences Laboratory in researching the breeding behaviour of Dragon Fish which will enable to increase the production of Dragon Fish in the farms. After completing a year of the 4-year project, the Group has yield some interesting result which will be published when the whole project is completed.

BRANDING PROJECT

Qian Hu has set up a Branding Committee chaired by one of its independent director, Mr. Tan Tow Ee. Its committee members comprise the senior management of the Group, including the CEO. The Group will invest in a branding project supported by IE Singapore for a period of 4 years to create awareness of the "Qian Hu" name and to build a total image for the Group. With the setting up of more "Qian Hu - The Pet Family" chain stores in the various countries, it will also be able to enhance Qian Hu's brand name in the region.

CUSTOMERS RELATIONSHIP MANAGEMENT

As a knowledge company committed to automation and use of advanced technologies, Qian Hu's Customer Relationship Management's (CRM) framework has provided an avenue for global networking, exchange ideas, knowledge and best practices among investors, customers,



suppliers, experts, hobbyist, etc where information is captured through forum, advertising, posting, feedback form, sales enquiry, etc, and disseminated via internet applications, mass email broadcast and VoiceXML application. With the SQA framework in place, CRM will be an area for the Group to enhance and improve on continuously.

CAPITAL EXPENDITURE

In FY 2004, capital expenditure incurred for infrastructure and farm facilities in both the Singapore and overseas entities amounted to \$1.1 million. The expansion of the production capacity in the Guangzhou factory and the setting up of retail chain stores throughout the region have accounted for \$0.7 million and \$1.2 million of the capital expenditure for the year respectively.

Bulk of the capital expenditure in FY 2005 will be for the setting up of retail chain stores in China, Thailand, Malaysia, and Indonesia, in addition to the on going maintenance of the Group's farms facilities.

Returns to Shareholders

EARNINGS PER SHARE (EPS)

The basic and diluted EPS for FY 2004 was 1.27 cents. Compared to FY 2003, both basic and diluted EPS decreased by 4.31 cents and 4.28 cents respectively. The decrease is in line with the lower profit after tax recorded in FY 2004 as compared to the previous year.

NET ASSET VALUE PER SHARE

The decrease in net asset value per share from 38.3 cents in FY 2003 to 33.1 cents in FY 2004 was as a result of the enlarged share capital of the Company due to bonus shares issued in February 2004.

DIVIDEND

As the Group is still growing its operations, cash is needed for its expansion. On the other hand, the Company would like to reward its supportive shareholders. Therefore, it has not set a concrete dividend policy at present. The recommended dividend took into consideration the Group's profit growth, cash position, positive cashflow generated from operations, tax credit balances and the projected capital requirements for business expansion. Payment of dividends is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting.

In 2003, a gross final dividend of 0.6 cents per ordinary share of \$0.10 each was declared. In addition, to express appreciation to loyal shareholders for their continuing support for the Company, 1 bonus share for every 5 existing shares held in the Company was issued in February 2004. As the Group has, in FY 2004, embarked on an aggressive expansion initiatives, it needs to retain cash to meet its investment requirements, as such, there will not be any dividend declared for the financial year ended 31 December 2004.



Qian Hu's Hubs & Distribution Network



Distribution Location	Fish	Accessories	Retail Chain Stores	Plastic
Singapore	•	•		•
Kuala Lumpur, Malaysia	•	•	•	
Batu Pahat, Malaysia	•	•	•	
Bangkok, Thailand	•	•	•	
Beijing, China	•	•		
Guangzhou, China		•		
Nanjing, China			•	
Shanghai, China			•	
Taiwan		•		
Jakarta, Indonesia	•	•		
Bandung, Indonesia			•	

Retail Chain Stores



Our Stakeholders



At Qian Hu, we have a number of stakeholders who, in our opinion, are absolutely crucial to the success of our Group:

- **Our People** who make things happen
- **Our Customers** whom we exist for
- **Our Community & The Environment** that we are an integral part of
- **Our Shareholders & Investors** who place their faith in us



The Qian Hu Work Culture

- A positive, supportive, fair environment
- Contributing staff are rewarded
- Staff who do not contribute are penalised
- Regular chill-out sessions
- Job enlargement and rotation
- Training

Our People

Our people are the primary drivers of growth, the very catalyst that makes the Qian Hu brand tick. This is even more crucial as we aim to be the world's biggest ornamental fish and pet services provider. Whilst that may be a very tall order to achieve, and definitely our most challenging "Big Hairy Audacious Goal" (commonly known as BHAG), it is truly our vision that we strive to achieve.

This year, Qian Hu was awarded the Singapore Quality Award which underscores our unwavering commitment towards achieving excellence throughout the Group – particularly, in the way we improve our customer focus, our efforts to excel, to deliver quality throughout the Qian Hu network, to encourage a culture of excellence in all of our people.

We continually emphasise the need for continual learning and skills upgrading, and maintaining a culture of transparency, openness and innovation, backed by a system of performance-based rewards.

Through the 360-degree assessment tool that gathers feedback regarding the effectiveness of leadership, as well as our Employee Opinion Survey (EOS) which provides our staff the opportunity to provide specific feedback, management is able to ascertain whether our culture of team playing, innovation and customer focus is effective. Our senior managers are always ready to listen to their feedback and improve their leadership.



Our Customers

Customers are the lifeblood of any organisation. Our customers – retail customers, ornamental fish importers, accessories manufacturers and distributors around the world -- are very important to us, and we manage these vital relationships by staying very close to them, and ensuring that we continually to exceed their expectations.

In our business, the ability to source for new varieties of fish, timely delivery, prompt response in processing orders, are of utmost importance to our customers.

With the aggressive launch of Qian Hu's The Pet Family retail stores in China, Thailand, Indonesia and Malaysia this year, there is a growing segment of customers who are increasingly crucial to our business success – the retail customers.

Our Community & The Environment

“All lives should be cherished and treasured.”

Our public responsibility policy says it all. We strive to preserve our natural environment via our ISO-14001 certified Environment Management System. Throughout our farm, we recycle rain water in order to reduce the burden on our water resources. All waste or effluent water are treated before being released into the public waterways. Our staff are trained to recycle plastic bags, styrofoam and paper carton boxes, and even rubber bands which we use daily in our activities. Visitors to our farm are encouraged to recycle beverage cans.

Our support for the underprivileged in our community includes raising funds for homes of the aged, and other charities through our annual charity fund raising event held in June 2004 at Parkway Parade. Our staff are encouraged to participate in the dollar for dollar contribution programme. We also organise free farm visits to underprivileged children.

We are very much aware of the plight of endangered wildlife, and all of our operations conform to the United Nations' Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).





Best Managed Board Award (right)
(Special Mention)

November 2003
Awarded by Singapore Institute of Directors, Hewitt Associates, The Business Times and Singapore Business Federation

Business Excellence Singapore Quality Award (left)

2004
Awarded by Spring Singapore

Our Shareholders & Investors

Excellence in corporate transparency and governance are our top priorities. Since our listing in 2000, we had set out to trail-blaze the cause of greater corporate transparency by being the first listed company to record shareholders' questions and comments and to make available our AGM minutes through our website, www.qianhu.com, and the SGXNET. Shareholders who are not able to attend the AGM would also be able to channel

their questions or comments via fax, email or through our automated telephone hotline.

One of the earliest to report our earnings on a results basis, Qian Hu has continually ensured that we remain accessible to the media and investors. In 2000, we were the first listed company to initiate the online open forum on Shareinvestor.com so that investors and shareholders were able to gain a better understanding of our very unique business and industry. In addition, they can get regular updates through a dedicated Investors Corner on our website www.qianhu.com.



Qian Hu Story

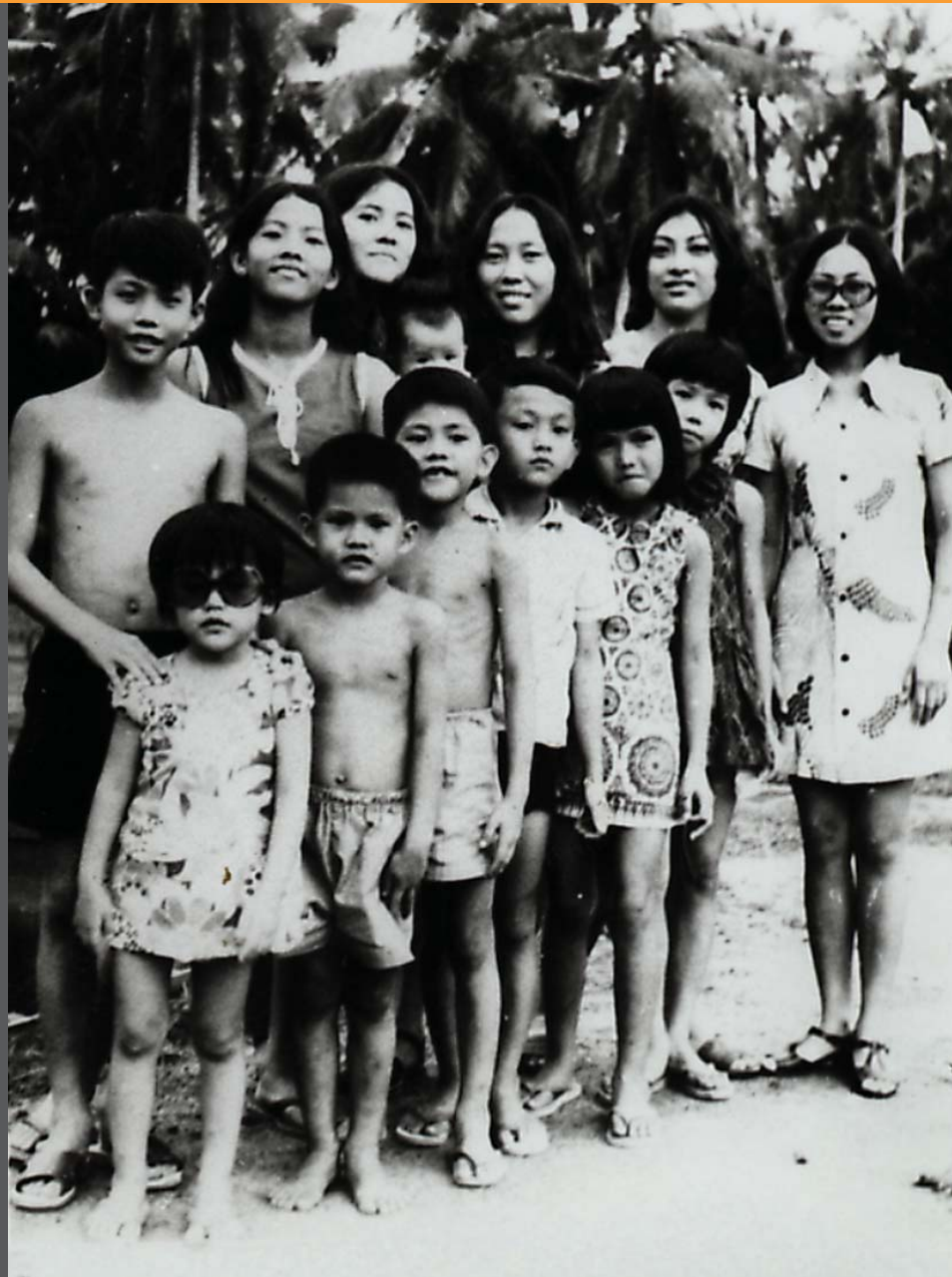
Qian Hu's history can be traced back to the early days of the Company's pioneers, two brothers who were in the pig farming business – Mr Yap Tik Huay, the father of the Group's Executive Chairman Kenny Yap, and his brother Yap Hey Cha.

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.

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.





Qian Hu 2004

50

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

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 another 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 initial public listing, Qian 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 in other countries such as Japan, Germany, United Kingdom and beyond. Qian Hu subsequently increased

its stake in Wan Jiang, 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 MainBoard 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 organised by Asiamoney.

That was also the year that a new fish division in Qian Hu (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 China.

Beijing Qian Hu and Guangzhou Wan Jiang in 2003, joined the many of Qian Hu's overseas units such as Qian Hu Tat Leng, Qian Hu (Malaysia) and Thai Qian Hu, to receive the international mark of quality – ISO 9002.

To improve the 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.

Qian Hu was also granted a Development and Expansion Incentive under the International Headquarters Award from the Economic Development Board in 2003. With this incentive, we enjoy a concessionary tax rate of 10% on the qualifying income for 5 years beginning 1 January 2003.

The Group continued to be recognised for its corporate governance and transparency efforts, culminating in our winning a Special Mention Award in the Best Managed Board Awards; the Most Transparent Company Award from Securities Investor Association (Singapore) for the third consecutive year, as well as the Golden Circle Special

Merit Award in the SIAS Investors' Choice Awards 2003.

Qian Hu added another hub in our distribution network in January 2004, following the signing of a definitive agreement with PD Natura Indonesia to establish our latest subsidiary, PT Qian Hu Aquarium & Pets Indonesia. This makes Qian Hu the first aquatic company in the world that is able to supply ornamental fish to the global market from five countries in Asia - namely, Singapore, Malaysia, Indonesia, Thailand and China.

2004 was indeed a major milestone year for Qian Hu as we launched our retail chain store strategy throughout Asia – in cities such as Shanghai, Nanjing, Kuala Lumpur, Batu Pahat, Bangkok and Bandung. Brand-named "Qian Hu - The Pet Family", these retail chain stores sell both ornamental and related aquarium and pet accessories with some stores in selected cities offering pet grooming services.

During the year, Qian Hu continues to gain recognition for its corporate transparency and quality management with awards such as the Singapore Quality Award 2004 from Spring Singapore, as well as the SIAS Most Transparent Company Awards 2004. We came in tops in the Mainboard Small Caps (Up to \$100 million) category and as runner-up in the Services/Utilities/Agriculture category. Qian Hu also topped the Business Times' Corporate Transparency Index this year.

Report on Corporate Governance

The Board of Directors and Management are committed to maintaining a high standard of corporate governance by complying with the benchmark set by the Code of Corporate Governance (the "Code") issued by the Corporate Governance Committee in 2001. Good corporate governance is an integral element of a sound corporation and enables a company to be more transparent and forward-looking. In addition, sound corporate governance is an effective safeguard against fraud and dubious financial engineering. This helps the Company create long-term value and returns for the shareholders.

This report outlines the Company's corporate governance processes and structures that were in place throughout the financial year, with specific reference made to each of the principles of the Code.

(A) BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company.

The Board of Directors (the "Board") comprises four executive directors and three independent directors, all having the right core competencies and diversity of experience which enable them to effectively contribute to the Company.

The primary function of the Board is to protect and enhance long-term value and returns for its shareholders. Besides carrying out its statutory responsibilities, the Board oversees the formulation of the Group's overall long-term strategic objectives and directions; deliberates the Group's annual business and strategic plans and monitors the achievement of the Group's corporate objectives. It also oversees the management of the Group's business affairs and conducts periodic reviews of the Group's financial controls, performance and resource allocation.

The Board's approval is required for matters such as corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposals of assets, major corporate policies on key areas of operations, acceptances of bank facilities, the release of the Group's quarterly, half year and full year's results and interested person transactions of a material nature.

The full Board meets regularly on a quarterly basis and ad-hoc Board meetings are convened as and when they are deemed necessary. In the course of the year under review, the number of board meetings held and attended by each board member is as follows:

Name of director	Number of Board Meetings held	Attendance
Kenny Yap Kim Lee (Chairman)	4	4
Alvin Yap Ah Seng	4	4
Andy Yap Ah Siong	4	4
Lai Chin Yee (appointed on 1 November 2004)	4	-
Robson Lee Teck Leng	4	4
Chang Weng Leong	4	4
Tan Tow Ee	4	4



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 Executive Committee was established in July 2000. It is chaired by Mr Kenny Yap Kim Lee and comprises all executive directors and the Group General Manager. 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 occasions where necessary.

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

Name of director / executive	Appointment	Number of meetings held	Attendance
Kenny Yap Kim Lee (Chairman)	Executive Director	12	12
Alvin Yap Ah Seng (Member)	Executive Director	12	11
Andy Yap Ah Siong (Member)	Executive Director	12	11
Lai Chin Yee (Member)	Finance Director	12	12
Low Eng Hua (Member)	Group General Manager	12	4 <small>on overseas posting</small>

Details of the Audit Committee, Nominating Committee and Remuneration Committee are set out on pages 55, 58 and 61 of this Annual Report respectively.

All directors undergo relevant training to develop the requisite individual skills. Newly appointed directors are given training appropriate to the level of their previous experience and are provided with extensive background information about the Group's history and core values, its strategic direction and corporate governance practices. Directors also have the opportunity to visit the Group's operational facilities and meet with the Management to gain a better understanding of the Group's business operations. The Board as a whole is updated on risks management and the key changes in the relevant regulatory requirements and accounting standards.

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises seven directors of which three are independent directors. They are 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. 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 judgment of the conduct of the Group's affairs. With three of the directors deemed to be independent, the Board is able to exercise independent judgment on corporate affairs and provide Management with a diverse and objective perspective on issues. Furthermore, the Board is able to interact and work with the Management team through a robust exchange of ideas and views to help shape the Group's strategic direction.

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, and collectively possess the necessary core competencies for effective functioning and informed decision-making. Each director has been appointed on the strength of his calibre, experience and stature and his potential to contribute to the proper guidance of the Group and its business.

When a vacancy arises under any circumstance, 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.

The profiles of the directors are set out on pages 22 and 23 of this Annual Report. The Board considers its current Board size appropriate for the nature and scope of the Group's operations.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

The Board is of the view that it is in the best interests of the Group to adopt a single leadership structure, whereby 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, Mr Kenny Yap Kim Lee, plays an instrumental role in developing the business of the Group and provides the Group with strong leadership and vision. He 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. As the Chairman and CEO, he also schedules Board meetings, oversees the preparation of the agenda for Board meetings and ensures the Group's compliance with the Code.

All major decisions made by the Executive Chairman and CEO are reviewed by the Audit Committee. His performance and appointment to the Board is reviewed periodically by the Nominating Committee and his remuneration package is reviewed periodically by the Remuneration Committee. Both the Nominating Committee and the Remuneration Committee comprise only of 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 Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.

The Board established the Nominating Committee in July 2002. The Nominating Committee comprises the three independent directors of the Company, viz Mr Tan Tow Ee as the chairman, and Mr Robson Lee Teck Leng and Mr Chang Weng Leong as members.



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 on 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 where 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.

A member of the Nominating Committee holds office till 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 Singapore Exchange), 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, 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 at the meetings during the last financial year were as follows:

Name of director	Appointment	Number of 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

The directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years. Pursuant to Article 89 of the Company's Articles of Association, one-third of the Board directors are to retire from office by rotation and be subject to re-election at the Company's Annual General Meeting ("AGM"). In addition, Article 88 of the Company's Article of Association provides that a newly appointed director must retire and submit himself for re-election at the next AGM following his appointment.

Under the existing Articles of Association of the Company, the Managing Director is not subject to retirement by rotation. In accordance with the guidelines set out in the Code to enable shareholders to exercise their full right to select all Board members, the Company's Articles of Association will be amended in March 2005 to provide that all directors, including the Managing Director, be required to retire by rotation and be subject to re-election.

The dates of initial appointment and last re-election of each director, together with their directorship in listed companies are set out below:

Name of director	Appointment	Date of initial appointment	Date of last re-election	Directorships in listed companies
Kenny Yap Kim Lee Age: 39	Executive / non-independent	12 December 1998	Not applicable	Qian Hu Corporation Limited
Alvin Yap Ah Seng Age: 39	Executive / non-independent	12 December 1998	10 March 2004	Qian Hu Corporation Limited
Andy Yap Ah Siong Age: 38	Executive / non-independent	12 December 1998	10 March 2004	Qian Hu Corporation Limited
Lai Chin Yee Age: 39	Executive / non-independent	1 November 2004	appointed in 2004	Qian Hu Corporation Limited
Robson Lee Teck Leng Age: 36	Non-executive / independent	18 October 2000	18 March 2003	Qian Hu Corporation Limited Sim Lian Group Limited Serial System Limited Best World International Limited Youcan Foods International Limited
Chang Weng Leong Age: 42	Non-executive / independent	18 October 2000	18 March 2003	Qian Hu Corporation Limited
Tan Tow Ee Age: 42	Non-executive / independent	1 May 2002	18 March 2003	Qian Hu Corporation Limited

The shareholdings of the individual directors of the Company are set out on page 66 of this Directors' Report. None of the directors hold shares in the subsidiaries of the Company.

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The Board performance is ultimately reflected in the performance of the Group. The Board should ensure compliance with the applicable laws and the Board members should act in good faith, with due diligence and care in the best interests of the Company and its shareholders.

The Nominating Committee has established a process for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual director. It considers a set of quantitative and qualitative performance criteria in evaluating the Board's performance which has remained unchanged from the previous year. The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes, Board performance in relation to discharging its principal responsibilities in terms of the financial indicators as set out in the Code.

The Board and the Nominating Committee have, with its best effort, ensured that directors appointed to the Board possess the background, experience, knowledge in business, finance and management skills critical to the Group's business. It has also ensured that each director, with his special contributions, brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.



Access to Information

Principle 6: In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.

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. They also receive monthly management accounts to enable them to exercise oversight over the Group's financial position.

The agenda for Board meetings is prepared in consultation with the Executive Chairman. Detailed Board papers are prepared for each meeting and are normally circulated a week in advance of each meeting. The Board papers include sufficient background explanatory information from the Management on financial, business and corporate issues to enable the directors to be properly briefed on issues to be considered at Board meetings. Such explanatory information may also be in the form of briefings to the directors or formal presentations made by senior management staff in attendance at Board meetings, or by external consultants engaged on specific projects.

The Board has separate and independent access to the Company Secretary and to other senior management executives of the Company and of the Group at all times in carrying out their duties.

The Board takes independent professional advice as and when necessary to enable it or the independent directors to discharge its or their responsibilities effectively. Subject to the approval of the Chairman, each director has the right to seek independent legal and other professional advice, at the Company's expense, to assist them in their duties.

The Company Secretary attends all Board meetings and meetings of the Board committees of the Company and ensures that Board procedures are followed and that applicable rules and regulations are complied with.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Remuneration 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 once annually. The Committee has access to expert advice in the field of executive compensation outside the Company where required.

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

Name of director	Appointment	Number of 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

The Remuneration Committee oversees and approves recommendations on executives' remuneration and development in the Company, with the aim of building capable and committed management teams through competitive compensation and focused management and progressive policies. 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. No director is involved in deciding his own remuneration.

Level and Mix of Remuneration

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more for this purpose. A proportion of the remuneration, especially that of executive directors, should be linked to performance.

In setting remuneration packages, the Company takes into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual directors.

The independent directors receive directors' fees, in accordance with their contributions, taking into account factors such as effort and time spent, responsibilities of the directors and the need to pay competitive fees to attract, motivate and retain the directors. Directors' fees are recommended by the Board for approval at the Company's AGM.

The executive directors do not receive directors' fees. The remuneration for the executive directors and the key senior executives comprise a basic salary component and a variable component which is the annual bonus, based on the performance of the Group as a whole and their individual performance. The service contracts entered into with three executive directors, namely Mr Kenny Yap Kim Lee, Mr Alvin Yap Ah Seng and Mr Andy Yap Ah Siong, were renewed on 1 January 2004 for a period of three years. The service contracts provide for termination by either the executive director or the Company upon giving written notice of not less than six months.

The annual reviews of the compensation of directors are carried out by the Remuneration Committee to ensure that the remuneration of the executive directors and senior management is commensurate with their performance, giving due regard to the financial and commercial health and business needs of the Group. The performance of the CEO (together with 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. None of the the controlling shareholders of the Company is entitled to participate in the ESOS. Details of the ESOS are set out in the Directors' Report on pages 67 to 70.

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report.



The breakdown of remuneration of the Directors of the Company for the year ended 31 December 2004 is set out below:

Name of director	*Salary & bonus \$'000	Directors' fees \$'000	Total \$'000
Kenny Yap Kim Lee, CEO	171	-	171
Alvin Yap Ah Seng, Executive	164	-	164
Andy Yap Ah Siong, Executive	163	-	163
Lai Chin Yee, Executive	33	-	33
Robson Lee Teck Leng, Independent	-	10	10
Chang Weng Leong, Independent	-	10	10
Tan Tow Ee, Independent	-	10	10
	531	30	561

* The salary and bonus amounts shown are inclusive of allowances and Central Provident Fund contributions.

Details of remuneration paid to the top 10 executives of the Group (who are not directors) are set out below:

Name of executive	*Total Remuneration \$'000
Yap Ping Heng	138
Yap Hock Huat	138
Yap Kim Choon	138
Goh Siak Ngan	145
Jimmy Tan Boon Kim	133
Lai Chin Yee (up to 30 Oct 2004)	108
Low Eng Hua	117
Thomas Ng Wah Hong	85
Lee Kim Hwat	117
Hendra Suria	88

* Remuneration amounts are inclusive of salary, bonus, allowances and Central Provident Fund contributions. There was no share options granted to employees during the financial year.

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

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board is accountable to the shareholders while the Management is accountable to the Board.

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.

The Management currently provides the Board with a continual flow of relevant information on a timely basis in order that it may effectively discharge its duties. On a monthly basis, Board members are provided with up-to-date financial reports and other information on the Group's performance for effective decision making.

Audit Committee

Principle 11: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The Audit Committee, chaired by Mr Robson Lee Teck Leng, was established in October 2000. All three members are independent directors of the Company, who bring with them invaluable managerial and professional expertise in the financial, legal and business management spheres. 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 system of control 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 internal and external auditors and evaluates their overall effectiveness through regular meetings with each group of auditors;
- reviews the adequacy of the internal audit function;
- determines 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;
- ensures the nature and extent of non-audit services provided by external auditors would not affect their independence as external auditors of the Company;
- reviews interested person transactions 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 the Management and resources which are necessary to enable it to discharge its functions properly. It also has full discretion to invite any executive director or executive officer to attend its meetings. Annually, the Audit Committee meets with the internal auditors and the external auditors separately, without the presence of the Management, to discuss the reasonableness of the financial reporting process, to review the adequacy of audit arrangements with particular emphasis on the observations and recommendations of the auditors, the scope and quality of their audits and the independence and objectivity of the auditors.



The Audit Committee also reviewed the non-audit services provided by the external auditors, which comprise tax services, and was satisfied that the independence of the external auditors would not be impaired.

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

Name of director	Appointment	Number of meetings held	Attendance
Robson Lee Teck Leng (Chairman)	Independent	4	4
Chang Weng Leong (Member)	Independent	4	4
Tan Tow Ee (Member)	Independent	4	4

Internal Control

Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

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.

Risk assessment and evaluation takes place as an integral part of the annual strategic planning cycle. Having identified the risks to the 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.

During the financial year, the Audit Committee, on behalf of the Board, has reviewed the effectiveness of the Group's system of internal controls in light of key business and financial risks affecting the operations. Based on the audit reports submitted by the internal auditors and the various controls put in place by the Management, the committee is satisfied that there are adequate internal controls.

Internal Audit

Principle 13: The company should establish an internal audit function that is independent of the activities it audits.

The Board recognises that it 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 the Management and the internal audit function which is out-sourced to an international public accounting firm. The internal audit function reports primarily to the Chairman of the Audit Committee.

The internal auditor plans its internal audit schedules in consultation with, but independent of the Management. The audit plan is submitted to the Audit Committee for approval prior to the commencement of the audit. The Audit Committee reviews the activities of the internal auditors on a regular basis, including overseeing and monitoring of the implementation of improvements required on internal control weaknesses identified.

(D) COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

Greater Shareholder Participation

Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

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

Pertinent information is communicated to shareholders on a regular and timely basis through:

- the Company's 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 the Singapore Financial Reporting Standards;
- quarterly financial statements containing a summary of the financial information and affairs of the Group for the period. These are published on the SGXNET (formerly known as MASNET) and in news releases;
- notices of and explanatory memoranda for AGMs 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 Singapore Exchange; and
- the Group's website at www.qianhu.com from 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 greater level of shareholder participation and for them to be kept up to date as to the Group's strategies and goals. 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. Each item of special business included in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution.

The Board views the AGM as the principal forum for dialogue with shareholders, being an opportunity for shareholders to raise issues and ask the directors or Management questions regarding the Company and its operations. In the AGMs held during the past two years, the Board developed several channels, such as the Group's website, an automated hotline, email or fax, for the shareholders, who are not able to attend the AGM, to contribute their feedback and inputs. Questions received are answered during the AGM and the AGM minutes are posted onto the Group's website and on SGXNET (formerly known as MASNET) after the meeting.



The Board supports the Code's principle to encourage shareholder participation. The Articles allow a shareholder of the Company to appoint one or two proxies to attend the AGM and vote in place of the shareholder. Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the identity of shareholders through the web is not compromised and is also subject to legislative amendment to recognise electronic voting.

The Chairmen of the Audit, Remuneration and Nominating Committees are normally available at the AGM to answer those questions relating to the work of these Committees. The external auditors are also present to assist the Board in addressing any relevant queries by the shareholders.

DEALING IN SECURITIES

The Group has adopted and implemented the Singapore Exchange Best Practices Guide in relation to the dealing of shares of the Company. The Group has procedures in place prohibiting directors and executives of the Group from dealing in the Company's shares during the periods commencing one month prior to the announcement of the Group's quarterly, half-yearly and full year results and ending on the date of the announcement of the results, or if they are in possession of unpublished material price-sensitive information of the Group. In addition, directors and executives are expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

INTERESTED PERSON TRANSACTIONS

Disclosure of interested party transactions is set out on page 116 of this Annual Report. When a potential conflict of interest arises, the director concerned does not participate in discussions and refrains from exercising any influence over other members of the Board.

As a listed company on the Singapore Exchange, the Company is required to comply with Chapter 9 of the Singapore Exchange Listing Manual on interested person transactions. To ensure compliance with Chapter 9, the Company has taken the following steps:

- The Board meets quarterly to review if the Company will be entering into any interested person transaction. If the Company is intending to enter into an interested person transaction, the Board of Directors will ensure that the Company complies with the requisite rules under Chapter 9.
- The Audit Committee also meets once every three months to review if the Company will be entering into an interested person transaction, and if so, the Audit Committee ensures that the relevant rules under Chapter 9 are complied with.

STATEMENT OF COMPLIANCE

The Board confirms that for the financial year ended 31 December 2004, the Company has complied with the principal corporate governance recommendations as set out in the Best Practices Guide issued by the Singapore Exchange.

FINANCIAL STATEMENTS

Directors' Report	66
Statement by Directors	72
Auditors' Report	73
Balance Sheets	74
Profit and Loss Accounts	76
Statements of Changes in Equity	77
Consolidated Statement of Cash Flows	78
Notes to the Financial Statements	82

DIRECTORS' REPORT

The directors are pleased to present their report to the members together with the audited financial statements of Qian Hu Corporation Limited (the "Company") and the consolidated financial statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 December 2004.

Directors

The directors of the Company in office at the date of this report are as follows:

Kenny Yap Kim Lee
 Alvin Yap Ah Seng
 Andy Yap Ah Siong
 Robson Lee Teck Leng
 Chang Weng Leong
 Tan Tow Ee
 Lai Chin Yee (appointed on 1 November 2004)

Qian Hu 2004

66

Arrangements to enable directors to acquire shares or debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares or debentures

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Cap. 50, particulars of interest of the directors who held office at the end of the financial year in the shares or debentures of the Company and related corporations were as follows:

	Direct interest			Deemed interest		
	1 January 2004/ date of appointment	31 December 2004	11 January 2005	1 January 2004/ date of appointment	31 December 2004	11 January 2005
The Company						
Ordinary shares of \$0.10 each fully paid						
Kenny Yap Kim Lee	* 4,697,605	5,637,126	5,637,126	-	-	-
Alvin Yap Ah Seng	* 5,191,560	6,229,872	6,229,872	33,000	39,600	39,600
Andy Yap Ah Siong	* 5,191,560	6,229,872	6,229,872	148,500	178,200	178,200
Robson Lee Teck Leng	33,000	6,600	6,600	-	-	-
Chang Weng Leong	33,000	39,600	39,600	-	-	-
Tan Tow Ee	100,000	10,000	10,000	100,000	120,000	120,000
Lai Chin Yee	80,400	80,400	80,400	-	-	-

* Include 700,000 ordinary shares under nominee name.

Directors' interests in shares or debentures (cont'd)

The Singapore Exchange Listing Manual requires a company to provide a statement as at the 21st day after the end of the financial year, showing the direct and deemed interests of each director of the company in the share capital of the company. As the Directors' Report of the Company is dated 12 January 2005, the Company is unable to comply with the 21 days' requirement. However, for the purpose of best practice, the Company has disclosed the direct and deemed interests of each director of the Company at the last business trading day before the date of the Directors' Report.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Share options

(a) Qian Hu Pre-IPO Employees' Share Option Scheme (the "Pre-IPO Scheme")

The Pre-IPO Scheme was approved and adopted at the Company's Extraordinary General Meeting held on 9 October 2000 to enable eligible employees of the Group, other than directors and controlling shareholders of the Company, to participate in the equity of the Company.

The Pre-IPO Scheme is administered by the Pre-IPO Option Committee, consisting of an executive director and non-executive directors of the Company as follows:

- (i) Kenny Yap Kim Lee
- (ii) Chang Weng Leong
- (iii) Robson Lee Teck Leng

On 25 October 2000, the following 3,332,000 options were granted to 93 employees of the Group to subscribe for ordinary shares of the Company of \$0.10 each at an exercise price of \$0.24 per share ("Pre-IPO options"). Of this amount, 506,000 shares were granted to 10 employees of the Group who are immediate family members of certain directors of the Company.

Option category	No. of holders	Exercise period	Exercise price (per share)	No. of shares under option
Grade C (Entry and mid-level)	41	8/11/2000 - 24/10/2010	24 cents	506,000
Grade B (Manager)	34	8/11/2001 - 24/10/2010	24 cents	1,482,000
Grade A (Senior Manager)	18	8/11/2001 - 24/10/2010	24 cents	1,344,000
	93			3,332,000

Share options (cont'd)

The options granted to associates of the Company's controlling shareholders under the Pre-IPO Scheme are as follows:

Name of participant	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year	Aggregate options exercised/cancelled since commencement of scheme to end of financial year	Aggregate options outstanding as at end of financial year
Yeo Bee Choo	–	76,000	(76,000)	–
Liu Gim Hong	–	76,000	(76,000)	–
Tan Ah Moi	–	46,000	(46,000)	–
Ng Ah Pun	–	14,000	(14,000)	–
Yap Hey Cha	–	12,000	(12,000)	–
Lim Lee Seng	–	12,000	(12,000)	–
Yap Ah Hoi	–	42,000	(42,000)	–
Yap Ai Choo	–	76,000	(76,000)	–
Yap Ai Tin	–	76,000	(76,000)	–
Yap Saw Chin	–	76,000	(76,000)	–
	–	506,000	(506,000)	–

In respect of options granted to employees of related corporations, no options were granted during the financial year and a total of 865,000 options were granted from the commencement of the Pre-IPO Scheme to the end of the financial year, of which 110,000 options were cancelled due to resignation of employees.

Options Granted

No participant has received 5% or more of the total number of options available under the Pre-IPO Scheme. There were no options granted under the Pre-IPO Scheme during the financial year.

The options granted by the Company do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

Issue of Shares Under Options

During the financial year, there were 228,000 ordinary shares issued pursuant to the exercise of the Pre-IPO options.

Unissued Shares Under Options

At the end of the financial year, there were no unissued ordinary shares of the Company under options granted. The movements of share options outstanding are disclosed in Note 31 to the financial statements.

Share options (cont'd)

(b) Qian Hu Post-IPO Employees' Share Option Scheme (the "Post-IPO Scheme")

The Post-IPO Scheme was approved and adopted at the Company's Extraordinary General Meeting held on 9 October 2000 to enable eligible employees of the Group, other than directors and controlling shareholders of the Company including their associates, to participate in the equity of the Company.

The Post-IPO Scheme is administered by the Post-IPO Option Committee, consisting of non-executive directors of the Company as follows:

- (i) Chang Weng Leong
- (ii) Robson Lee Teck Leng
- (iii) Tan Tow Ee

At an Extraordinary General Meeting held on 19 February 2002, the following modifications to the Post-IPO Scheme were approved by the shareholders of the Company:

- (a) The Post-IPO Scheme will be extended to include the participation of associates of controlling shareholders. Such associates must be confirmed full-time employees.
- (b) The exercise price of the Post-IPO options will be set at a discount of 20% to the prevailing market price of the shares. The associates of controlling shareholders will be entitled to the same rate of discount to the market price of the shares as other employees who are selected by the Committee to receive discounted options.

Size of Plan

The total number of new shares over which options may be granted pursuant to the Post-IPO Scheme shall not exceed 10% of the issued share capital of the Company on the day immediately preceding the offer date of the options ("Offer Date").

Grant of Option

Options may be granted from time to time during the period when the Post-IPO Scheme is in force, except that option shall only be granted on or after third market day on which an announcement on any matter involving unpublishing price sensitive information is released.

Acceptance of Option

The grant of an option shall be accepted within 30 days from the Offer Date and accompanied by payment to the Company of a nominal consideration of \$1.

Exercise period

The exercise period of an option granted at a discount of 20% to the prevailing market price of the shares commences after two years from the Offer Date.

Share options (cont'd)

The options granted to associates of the Company's controlling shareholders under the Post-IPO Scheme are as follows:

Name of participant	Options granted during the financial year under review	Aggregate options granted since commencement of scheme to end of financial year	Aggregate options exercised/cancelled since commencement of scheme to end of financial year	Aggregate options outstanding as at end of financial year
Yap Ai Tin	–	40,000	–	40,000
Yap Saw Chin	–	40,000	–	40,000
Yap Ai Choo	–	40,000	–	40,000
Tan Ah Moi	–	20,000	–	20,000
Ng Ah Pun	–	10,000	–	10,000
Lim Lee Seng	–	10,000	–	10,000
	–	160,000	–	160,000

In respect of options granted to employees of related corporations, no options were granted during the financial year and a total of 425,000 options were granted from the commencement of the Post-IPO Scheme to the end of the financial year, of which 55,000 options were cancelled due to resignation of employees.

Options Granted

No participant has received 5% or more of the total number of options available under the Post-IPO Scheme. There were no options granted under the Post-IPO Scheme during the financial year.

The options granted by the Company do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

Issue of Shares Under Options

During the financial year, no shares were issued pursuant to the exercise of the Post-IPO options.

Unissued Shares Under Options

At the end of the financial year, there were 1,338,000 unissued ordinary shares of the Company under options granted, exercisable at \$0.59 per share from 1 August 2004 to 31 July 2012, unless any of the share option is cancelled or has lapsed. The movements of share options outstanding are disclosed in Note 31 to the financial statements.

Except for the above, no other options to take up unissued shares of the Company or its subsidiaries were granted and no shares were issued by virtue of the exercise of options to take up unissued shares of the Company or its subsidiaries. No other options to take up unissued shares in the Company or its subsidiaries were outstanding as at the end of the financial year.

Audit committee

The Audit Committee performed the functions specified in the Companies Act. The functions performed are detailed in the Report on Corporate Governance.

Auditors

Ernst & Young have expressed their willingness to accept re-appointment as auditors of the Company.

On behalf of the Board of Directors

Financial Statements

71

Kenny Yap Kim Lee

Director

Alvin Yap Ah Seng

Director

Singapore

12 January 2005

STATEMENT BY DIRECTORS

We, Kenny Yap Kim Lee and Alvin Yap Ah Seng, being two of the directors of Qian Hu Corporation Limited, do hereby state that, in the opinion of the directors,

- (i) the accompanying balance sheets, profit and loss accounts, statements of changes in equity and consolidated statement of cash flows together with notes thereto, set out on pages 74 to 125 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the results of the business, changes in equity of the Company and of the Group and cash flows of the Group for the financial year then ended, and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Qian Hu 2004

72

On behalf of the Board of Directors

Kenny Yap Kim Lee

Director

Alvin Yap Ah Seng

Director

Singapore

12 January 2005

AUDITORS' REPORT

to the members of Qian Hu Corporation Limited

We have audited the accompanying financial statements of Qian Hu Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 74 to 125 for the year ended 31 December 2004. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements of the Company and of the Group are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004, the results and changes in equity of the Company and of the Group and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and by the subsidiary incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Financial Statements

73

ERNST & YOUNG

Certified Public Accountants

Singapore

12 January 2005

BALANCE SHEETS

as at 31 December 2004

(In Singapore dollars)

	Note	2004 \$	Group 2003 \$	2004 \$	Company 2003 \$
ASSETS LESS LIABILITIES					
Non-current assets					
Property, plant and equipment	3	14,060,956	12,897,075	3,565,915	4,173,300
Brooder stocks	4	6,926,116	7,337,702	1,313,550	1,342,740
Investments in subsidiaries	5	–	–	9,347,890	8,975,428
Investments in associates	6	–	66,444	28,722	28,722
Quoted equity investment, at cost (market value: \$8,586 : 2003: \$5,311)		3,564	3,729	–	–
Intangible assets	7	1,845,309	861,109	103,434	78,695
Land use rights	8	–	89,814	–	–
Current assets					
Inventories	9	19,909,846	14,722,453	5,211,774	4,634,226
Breeder stocks	10	1,721,800	1,493,690	245,800	188,000
Trade receivables	11	13,674,424	13,120,593	6,685,375	6,886,499
Other receivables, deposits and prepayments	12	1,792,476	1,764,739	280,184	269,312
Due from					
- subsidiaries (trade)		–	–	15,196,986	9,572,643
- subsidiaries (non-trade)	13	–	–	3,130,522	1,532,154
- associates (trade)	14	794,471	662,105	563,627	636,625
Fixed deposits	15	23,046	101,594	23,046	23,046
Cash and bank balances		4,129,912	4,125,387	2,558,016	2,809,258
		42,045,975	35,990,561	33,895,330	26,551,763

Qian Hu 2004

	Note	Group		Company	
		2004 \$	2003 \$	2004 \$	2003 \$
Current liabilities					
Trade payables		4,182,423	4,347,183	2,020,268	2,644,882
Bills payable to banks	16	1,289,428	1,950,423	893,716	1,950,423
Other payables and accruals	17	2,899,111	3,179,832	2,297,535	2,118,227
Due to					
- subsidiaries (trade)		–	–	80,716	112,352
- minority shareholders of subsidiaries (non-trade)	13	2,736,847	2,539,592	1,270,456	1,064,079
Finance lease obligations	18	320,703	313,327	133,555	161,336
Bank term loans	19	7,440,082	449,404	7,295,000	–
Provision for taxation		973,479	1,077,331	361,678	995,480
Bank overdraft (secured)	16	–	102,613	–	–
		19,842,073	13,959,705	14,352,924	9,046,779
Net current assets		22,203,902	22,030,856	19,542,406	17,504,984
Non-current liabilities					
Finance lease obligations	18	(436,572)	(650,803)	(217,610)	(378,113)
Bank term loans	19	(1,045,891)	(932,834)	–	–
Deferred taxation	27	(1,167,439)	(971,800)	(235,000)	(258,000)
		42,389,945	40,731,292	33,449,307	31,467,756
EQUITY					
Share capital	20	12,821,124	10,626,847	12,821,124	10,626,847
Reserves	21	24,808,117	25,924,237	20,628,183	20,840,909
		37,629,241	36,551,084	33,449,307	31,467,756
Minority interests		4,760,704	4,180,208	–	–
		42,389,945	40,731,292	33,449,307	31,467,756

PROFIT AND LOSS ACCOUNTS

for the year ended 31 December 2004

(In Singapore dollars)

	Note	Group		Company	
		2004 \$	2003 \$	2004 \$	2003 \$
Turnover	22	65,492,022	67,679,769	39,178,278	47,226,715
Cost of sales		(42,538,363)	(42,311,980)	(27,237,441)	(32,174,475)
Gross profit		22,953,659	25,367,789	11,940,837	15,052,240
Other operating income		170,382	202,146	215,923	143,546
Selling and distribution expenses		(2,465,192)	(1,829,000)	(990,902)	(820,779)
General and administrative expenses		(16,793,959)	(13,973,213)	(8,525,280)	(8,591,440)
Profit from operations	23	3,864,890	9,767,722	2,640,578	5,783,567
Financial expenses	26	(379,607)	(221,467)	(244,428)	(140,503)
Financial income	26	2,916	7,396	–	478
		3,488,199	9,553,651	2,396,150	5,643,542
Share of losses of associates		(66,444)	–	–	–
Profit before taxation		3,421,755	9,553,651	2,396,150	5,643,542
Taxation	27	(1,212,196)	(1,784,348)	(357,000)	(930,000)
		2,209,559	7,769,303	2,039,150	4,713,542
Minority interests		(582,277)	(753,530)	–	–
Net profit attributable to Members of the Company		1,627,282	7,015,773	2,039,150	4,713,542
Earnings per share (cents)	29				
Basic		1.27	5.58		
Diluted		1.27	5.55		

Qian Hu 2004

76

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2004

(In Singapore dollars)

Group

	Share capital \$	Share premium \$	Revenue reserve \$	Translation reserve \$	Total \$
Balance as at 1 January 2003	10,297,070	4,714,984	12,777,602	87,758	27,877,414
Currency translation differences	-	-	-	(274,061)	(274,061)
Net profit for the year	-	-	7,015,773	-	7,015,773
Dividends (Note 28)	-	-	(964,620)	-	(964,620)
Issue of new shares	329,777	2,566,801	-	-	2,896,578
Balance as at 31 December 2003	10,626,847	7,281,785	18,828,755	(186,303)	36,551,084
Currency translation differences	-	-	-	(491,526)	(491,526)
Net profit for the year	-	-	1,627,282	-	1,627,282
Dividends (Note 28)	-	-	(511,183)	-	(511,183)
Issue of new shares	64,348	389,236	-	-	453,584
Bonus issue of shares via capitalisation of share premium account	2,129,929	(2,129,929)	-	-	-
Balance as at 31 December 2004	12,821,124	5,541,092	19,944,854	(677,829)	37,629,241

Financial Statements

77

Company

	Share capital \$	Share premium \$	Revenue reserve \$	Total \$
Balance as at 1 January 2003	10,297,070	4,714,984	9,810,202	24,822,256
Net profit for the year	-	-	4,713,542	4,713,542
Dividends (Note 28)	-	-	(964,620)	(964,620)
Issue of new shares	329,777	2,566,801	-	2,896,578
Balance as at 31 December 2003	10,626,847	7,281,785	13,559,124	31,467,756
Net profit for the year	-	-	2,039,150	2,039,150
Dividends (Note 28)	-	-	(511,183)	(511,183)
Issue of new shares	64,348	389,236	-	453,584
Bonus issue of shares via capitalisation of share premium account	2,129,929	(2,129,929)	-	-
Balance as at 31 December 2004	12,821,124	5,541,092	15,087,091	33,449,307

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2004

(In Singapore dollars)

	2004 \$	2003 \$
Cash flows from operating activities		
Profit before taxation and minority interests	3,421,755	9,553,651
Adjustments for:		
Bad trade receivables written off	15,463	–
Depreciation of		
- property, plant and equipment	1,936,165	1,563,432
- brooder stocks	146,322	90,467
Property, plant and equipment written off	–	13,113
Loss (gain) on disposal of		
- property, plant and equipment	2,384	(34,963)
- land use rights	–	(9,090)
- a subsidiary	55,221	–
Gain arising from changes in fair values less estimated point-of-sale costs attributable to physical changes of breeder stocks	(228,110)	(1,493,690)
Amortisation of		
- trademarks/customer acquisition costs and product listing fees	56,778	42,415
- goodwill on consolidation	91,000	40,795
- land use rights	328	1,966
Provision for		
- doubtful trade receivables	384,659	285,759
- due from associates	80,000	–
Provision for doubtful non-trade receivables written back	(6,179)	–
Share of losses of associates	66,444	–
Interest expense	379,607	221,467
Interest income	(2,916)	(7,396)
Net effect of exchange differences	(21,556)	(50,306)
Operating profit before working capital changes	6,377,365	10,217,620
(Increase) decrease in:		
Inventories	(5,465,481)	(1,383,128)
Trade receivables	(1,143,407)	(742,624)
Other receivables, deposits and prepayments	(93,083)	(963,952)
Due from associates (trade)	(213,493)	(255,653)
Increase (decrease) in:		
Trade payables	(198,348)	(2,298,354)
Bills payable to banks	(660,995)	(1,254,457)
Other payables and accruals	(259,652)	(164,852)
Cash (used in) generated from operations	(1,657,094)	3,154,600
Payment of income tax	(1,110,061)	(1,945,697)
Interest paid	(353,036)	(221,467)
Net cash (used in) generated from operating activities	(3,120,191)	987,436

	2004 \$	2003 \$
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 3)	(2,852,794)	(1,477,005)
Proceeds from disposal of		
- property, plant and equipment	364,341	496,479
- land use rights	89,487	127,200
Payment for trademarks/customer acquisition costs and product listing fees	(77,335)	(38,105)
Investment in an associate	-	(66,444)
Acquisition of subsidiaries, net of cash and cash equivalents (Note A)	(718,805)	(2,711,138)
Disposal of a subsidiary, net of cash and cash equivalents (Note B)	332,279	-
	<hr/>	<hr/>
Net cash used in investing activities	(2,862,827)	(3,669,013)
Cash flows from financing activities		
Proceeds from issuance of new shares (net)	54,720	89,760
Drawdown of		
- bank term loans	7,589,066	1,430,088
- loan from minority shareholders of subsidiaries	204,389	29,672
Repayment of		
- finance lease obligations	(355,650)	(496,260)
- bank term loans	(425,565)	(47,850)
- loan from minority shareholders of subsidiaries	(547,085)	(1,062,928)
Payment of dividends to shareholders	(511,183)	(964,620)
Interest received	2,916	7,396
	<hr/>	<hr/>
Net cash generated from (used in) financing activities	6,011,608	(1,014,742)
Net increase (decrease) in cash and cash equivalents	28,590	(3,696,319)
Cash and cash equivalents at beginning of year	4,124,368	7,820,687
	<hr/>	<hr/>
Cash and cash equivalents at end of year (Note C)	4,152,958	4,124,368

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2004

(In Singapore dollars)

Notes to the Consolidated Statement of Cash Flows

Note A: Summary of effects on acquisition of subsidiaries

The attributable assets and liabilities of the subsidiaries acquired and the cash flow effect of the acquisitions are set out as follows:

	2004 \$	2003 \$
Property, plant and equipment	994,183	5,454,845
Brooder stocks	–	6,203,649
Inventories	822,983	463,111
Trade receivables	275,200	311,923
Other receivables, deposits and prepayments	243,715	13,982
Cash and bank balances	24,173	113,753
Trade payables	(86,928)	(835,908)
Other payables and accruals	(13,359)	(126,055)
Finance lease obligations	–	(44,547)
Due to		
- minority shareholders of a subsidiary	–	(2,508,769)
- holding company	(1,156,294)	–
Bank term loan	(47,096)	–
	<hr/>	<hr/>
Net assets acquired	1,056,577	9,045,984
Less:		
Minority interests	(388,636)	(3,166,094)
Goodwill on consolidation	50,864	815,898
	<hr/>	<hr/>
Total purchase consideration	718,805	6,695,788
Less:		
Cash and bank balances acquired	–	(113,753)
Consideration paid by issuance of new shares	–	(2,806,818)
Due to minority shareholders of a subsidiary	–	(1,064,079)
	<hr/>	<hr/>
Net cash outflow from acquisition of subsidiaries	718,805	2,711,138

Note B: Summary of effects on disposal of a subsidiary

The attributable assets of the subsidiary disposed and the cash flow effect of the disposal are set out as follows:

	2004 \$	2003 \$
Other receivables	27,991	–
Due from		
- related company	575,557	–
- holding company	651,630	–
Cash and bank balances	23,278	–
	<hr/>	
Net assets disposed	1,278,456	–
Loss on disposal of a subsidiary	(55,221)	–
	<hr/>	
Total consideration	1,223,235	–
Less:		
Cash and bank balances disposed	(23,278)	–
Due to subsidiary	(647,678)	–
Deferred cash settlement	(220,000)	–
	<hr/>	
Net cash inflow from disposal of a subsidiary	332,279	–
	<hr/>	

Financial Statements

81

Note C: Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following balance sheet amounts:

	2004 \$	2003 \$
Cash and bank balances	4,129,912	4,125,387
Fixed deposits	23,046	101,594
Bank overdraft	–	(102,613)
	<hr/>	
Cash and cash equivalents	4,152,958	4,124,368
	<hr/>	

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

1. Corporate information

The Company is a limited company domiciled and incorporated in the Republic of Singapore with registered office at No. 71 Jalan Lekar, Singapore 698950.

The principal activities of the Company are those of import, export, farming, breeding and distribution of ornamental fishes and aquarium and pet accessories. The principal activities of the subsidiaries are as set out in Note 5 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

The Company and the Group have 126 and 766 (2003: 120 and 637) employees at the end of the financial year respectively.

2. Significant accounting policies

(a) Basis of preparation

The financial statements, expressed in Singapore dollars, have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Singapore Companies Act, Cap. 50.

The financial statements have been prepared on a historical cost basis except for the valuation of breeder stocks at fair value.

The accounting policies have been consistently applied by the Company and the Group and are consistent with those used in the previous financial year.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the end of the financial year. The results of subsidiaries acquired or disposed of during the financial year are included in or excluded from the consolidated financial statements with effect from the respective dates of acquisition or disposal, as applicable. Significant intercompany balances, transactions and unrealised profit or loss on intercompany transactions have been eliminated on consolidation.

When a subsidiary or an associate is acquired, any excess or deficiency of the purchase consideration over the fair values of the Group's share of the identifiable net assets acquired represents goodwill or negative goodwill, which is accounted for in accordance with Note 2(h).

Investments in associates are accounted for in the consolidated financial statements using the equity method. The Group's share of the post-acquisition results of associates is included in the consolidated profit and loss account. The Group's share of the post-acquisition accumulated profits and reserves of associates is included in the carrying value of the investment in the consolidated balance sheet.

Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the associates, against the investment in associates.

(b) Basis of consolidation (cont'd)

In the preparation of the consolidated financial statements, the financial statements of foreign subsidiaries and associates are translated at the rates of exchange ruling at the balance sheet date except for share capital and reserves which are translated at historical rates of exchange and profit and loss items are translated at the average exchange rates for the financial year. Foreign currency translation differences are taken directly to translation reserve. On disposal of a foreign entity, accumulated exchange differences are recognised in the profit and loss account as a component of the gain or loss on disposal.

(c) Subsidiaries and associates

(i) Subsidiaries

Subsidiaries are those companies controlled by the Group. Control exist when the Group has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses.

(ii) Associates

An associate is a company, not being a subsidiary, in which the Group has a long-term interest of between 20% and 50% of the equity and in whose financial and operating decisions the Group exercises significant influence.

Investments in associates are stated in the Company's balance sheet at cost less impairment losses.

(iii) Quoted investments

Investment in quoted shares is stated at the lower of cost and market value determined on an individual investment basis.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure for additions, improvements and renewals are capitalised and expenditure for maintenance and repairs are charged to the profit and loss account. When assets are sold or retired, their cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss accounts.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

(e) Biological assets

The Group has three types of biological assets; namely ornamental fish, brooder stocks and breeder stocks. Biological assets are to be measured on initial recognition and at each balance sheet date, at their fair values less estimated point-of-sale costs, in accordance with FRS 41, Agriculture.

(i) Ornamental fish

The Group holds ornamental fish for trading purposes. The holding period of ornamental fish held for growing is generally short, ranging from 2 to 4 weeks. In the opinion of the directors, the increment in fair value of the ornamental fish during the holding period is nominal, and as such, the cost of ornamental fish that undergo biological transformation approximates fair value. Accordingly, ornamental fish held for trading have been stated at cost.

(ii) Brooder stocks

The brooder stocks are parent stocks of Dragon Fish, held for use in the breeding of Dragon Fish. As the fair value of brooder stocks cannot be measured reliably, the brooder stocks have been stated at cost less accumulated depreciation and any impairment loss. The brooder stocks have been depreciated on a straight-line basis over their estimated useful lives of 50 years.

(iii) Breeder stocks

The breeder stocks are the next generation of the parent stocks of Dragon Fish, held for trading purposes. The holding period of these breeder stocks are usually 2 to 3 months before they are put up for sales. As at balance sheet date, these stocks are measured based on the fair value of those fish of similar age, breed and genetic merit that can be purchased from the suppliers. Gain or loss from these valuations is included in the profit and loss account.

(f) Depreciation

Depreciation is calculated on a straight-line basis so as to write-off the cost of the property, plant and equipment over their estimated useful lives (except for property, plant and equipment of certain subsidiaries which take into account an estimate residual value of 10% of cost). The estimated useful lives of property, plant and equipment are as follows:

Freehold buildings	20 years
Leasehold land	over the remaining lease terms
Leasehold buildings	over the remaining lease terms
Leasehold improvements	5 years
Motor vehicles	5 - 10 years
Computers	3 years
Furniture, fittings and office equipment	5 - 10 years
Equipment and tools	8 - 10 years
Moulds	5 years
Machinery	5 - 8 years
Air conditioner	5 - 10 years
Ponds and concrete tanks	3 - 10 years
Electrical and installation	10 years

No depreciation is provided on freehold land.

(f) **Depreciation (cont'd)**

Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

The useful life and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

(g) **Leases**

Leases in terms of which the Group assumes substantially all risks and rewards of ownership of the leased items are classified as finance lease. Property, plant and equipment acquired by way of finance lease is capitalised at the lower of its fair value and the present value of minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss account.

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased items are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

(h) **Intangible assets**

(i) *Trademarks/customer acquisition costs and product listing fees*

Trademarks/customer acquisition costs and product listing fees are stated at cost less accumulated amortisation and impairment losses. These costs are amortised on a straight-line basis over 3 years.

(ii) *Goodwill*

Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses. Goodwill is amortised on a straight-line basis over its estimated useful life of 20 years.

(iii) *Negative goodwill*

Negative goodwill arising on acquisition represents the excess of the fair value of the Group's share of the identifiable assets acquired over the cost of acquisition. Negative goodwill in excess of fair values of non-monetary assets acquired is recognised immediately in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

(i) Land use rights

This refers to the rights to use the acquired land and are stated at cost less accumulated amortisation and impairment losses. Land use rights are amortised over the years in which the right to use the land is granted.

(j) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in profit and loss account.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded as income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

(k) Inventories

Inventories are stated at the lower of cost (determined on a weighted average basis) and net realisable value. Cost includes materials, all direct expenditure and an attributable portion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Provision is made for deteriorated, damaged, obsolete and slow-moving inventories.

(l) Trade and other receivables

Trade and other receivables, including intercompany balances, are recognised and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful receivables is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank, bank deposits and highly liquid investments which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents are shown net of outstanding bank overdrafts which are repayable on demand and which form an integral part of the Group's cash management.

(n) **Trade and other payables**

Liabilities for trade and other payables, including intercompany payables, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(o) **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(p) **Revenue recognition**

(i) *Sale of goods*

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the buyer which generally coincides with delivery and acceptance of the goods sold. Revenue excludes goods and services or other sales taxes and is after deduction of any trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or possible return of goods.

(ii) *Interest income*

Interest income from bank deposits is recognised on a time-apportioned basis on the principal outstanding and at rate applicable.

(q) **Employee benefits**

(i) *Equity compensation benefit*

The Company has two employees' share option schemes where employees (including associates of the Company's controlling shareholders) are granted non-transferable options to purchase the shares of the Company. No compensation costs or obligation is recognised upon granting or the exercise of the options. When the options are exercised, equity is increased by the amount of the proceeds received.

(ii) *Defined contribution plans*

As required by law, the Group makes contributions to the state pension scheme, the Central Provident Fund ("CPF") for Singapore companies and the Employees Provident Fund ("EPF") for Malaysia companies. CPF and EPF contributions are recognised as compensation expenses in the same period as the employment that gives rise to the contributions.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

(q) Employee benefits (cont'd)

(iii) Pension scheme

The subsidiary companies in the People's Republic of China operate defined contribution pension schemes. Contributions are charged to the profit and loss account as they became payable in accordance with the rules of the scheme.

(iv) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(r) Borrowings

Borrowings are carried at cost net of transaction costs.

Borrowing costs are recognised in the period in which they are incurred.

(s) Taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arises from goodwill for which amortisation is not deductible for tax purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised. For deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities are not provided on undistributed earnings of foreign subsidiaries to the extent the earnings are intended to remain indefinitely invested in those entities.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(t) Foreign currencies translation

The accounting records of the companies in the Group are maintained in their respective measurement currencies.

Transactions in foreign currencies are recorded in the respective companies' measurement currencies using exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities in foreign currency at the balance sheet date are translated into the respective measurement currencies at exchange rates approximating those ruling at that date. Non-monetary assets and liabilities are recorded using the exchange rates ruling at the transaction dates. All resultant exchange differences are recognised in the profit and loss account.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

For management purposes, the Group is organised on a world-wide basis into three major operating businesses.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total costs incurred during the financial year to acquire segment assets that are expected to be used for more than one year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

3. Property, plant and equipment

Group

	Freehold land & buildings \$	Leasehold land \$	Leasehold buildings \$	Leasehold improvements \$	Motor vehicles \$	Computers \$
At cost						
As at 1 January 2004	4,999,715	79,823	4,408,006	89,952	2,423,641	613,906
Balance attributable to a subsidiary acquired during the year	579,975	–	–	–	134,300	–
Additions	598,664	–	49,025	245,157	249,746	155,284
Disposals/written off	–	–	(338,201)	–	(235,202)	(7,646)
Transfer to moulds	–	–	–	–	–	–
Translation differences	(279,225)	(2,753)	(8,330)	(3,101)	(51,823)	(3,458)
As at 31 December 2004	5,899,129	77,070	4,110,500	332,008	2,520,662	758,086
Accumulated depreciation						
As at 1 January 2004	164,071	62,084	1,205,498	37,843	1,061,568	425,494
Charge for the year	160,823	17,127	292,131	36,486	446,384	107,687
Disposals/written off	–	–	(52,540)	–	(168,007)	(6,411)
Translation differences	(7,261)	(2,141)	(1,294)	(1,305)	(5,364)	(2,130)
As at 31 December 2004	317,633	77,070	1,443,795	73,024	1,334,581	524,640
Depreciation charge for 2003	55,587	31,042	308,873	13,128	404,324	102,287
Net book value						
As at 31 December 2004	5,581,496	–	2,666,705	258,984	1,186,081	233,446
As at 31 December 2003	4,835,644	17,739	3,202,508	52,109	1,362,073	188,412

Furniture, fittings and office equipment \$	Equipment and tools \$	Moulds \$	Machinery \$	Air conditioner \$	Ponds and concrete tanks \$	Electrical and installation \$	Construction- in-progress \$	Total \$
596,836	727,432	465,198	3,000,235	127,950	182,665	816,527	39,661	18,571,547
10,924	91,762	-	19,290	385	-	27,000	-	863,636
299,409	342,420	533,164	180,603	15,914	-	348,059	-	3,017,445
(9,136)	(3,930)	-	(169,869)	(3,938)	-	-	-	(767,922)
-	-	38,135	-	-	-	-	(38,135)	-
(8,443)	(37,050)	(17,892)	(36,969)	(1,938)	(7,025)	(14,714)	(1,526)	(474,247)
889,590	1,120,634	1,018,605	2,993,290	138,373	175,640	1,176,872	-	21,210,459
218,187	108,821	140,786	1,663,596	60,770	182,665	343,089	-	5,674,472
94,132	101,851	133,821	393,959	17,527	-	134,237	-	1,936,165
(4,419)	(3,537)	-	(172,612)	(1,170)	-	-	-	(408,696)
(2,734)	(3,203)	(5,415)	(9,828)	(536)	(7,025)	(4,202)	-	(52,438)
305,166	203,932	269,192	1,875,115	76,591	175,640	473,124	-	7,149,503
156,606	46,577	87,830	289,063	14,763	-	53,352	-	1,563,432
584,424	916,702	749,413	1,118,175	61,782	-	703,748	-	14,060,956
378,649	618,611	324,412	1,336,639	67,180	-	473,438	39,661	12,897,075

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

3. Property, plant and equipment (cont'd)

Company

	Leasehold buildings \$	Motor vehicles \$	Computers \$	Furniture, fittings and office equipment \$	Machinery \$	Air conditioner \$	Electrical and installation \$	Total \$
--	------------------------------	-------------------------	-----------------	---	-----------------	--------------------------	---	-------------

At cost

As at 1 January 2004	4,061,475	1,186,795	445,493	311,925	535,091	79,806	293,293	6,913,878
Additions	49,025	–	40,229	7,949	9,669	11,470	–	118,342
Disposals	–	(69,298)	–	–	–	–	–	(69,298)

As at 31 December 2004	4,110,500	1,117,497	485,722	319,874	544,760	91,276	293,293	6,962,922
------------------------------	-----------	-----------	---------	---------	---------	--------	---------	-----------

Accumulated depreciation

As at 1 January 2004	1,153,296	623,992	336,525	132,968	265,943	46,753	181,101	2,740,578
Charge for the year	290,499	209,129	61,659	36,505	61,804	11,331	21,306	692,233
Disposals	–	(35,804)	–	–	–	–	–	(35,804)

As at 31 December 2004	1,443,795	797,317	398,184	169,473	327,747	58,084	202,407	3,397,007
------------------------------	-----------	---------	---------	---------	---------	--------	---------	-----------

Depreciation charge for 2003	280,363	251,422	71,373	38,214	62,848	12,058	27,783	744,061
------------------------------------	---------	---------	--------	--------	--------	--------	--------	---------

Net book value

As at 31 December 2004	2,666,705	320,180	87,538	150,401	217,013	33,192	90,886	3,565,915
------------------------------	-----------	---------	--------	---------	---------	--------	--------	-----------

As at 31 December 2003	2,908,179	562,803	108,968	178,957	269,148	33,053	112,192	4,173,300
------------------------------	-----------	---------	---------	---------	---------	--------	---------	-----------

3. Property, plant and equipment (cont'd)

- (i) As at 31 December 2004, the net book value of the Group's and the Company's plant and machinery and motor vehicles acquired under finance leases arrangements are as follows :

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Net book value as at 31 December				
Machinery	61	48	–	–
Motor vehicles	879	1,018	312	549
	<u>940</u>	<u>1,066</u>	<u>312</u>	<u>549</u>

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of \$3,017,445 (2003: \$1,826,119) of which \$164,651 (2003: \$349,114) was acquired by means of finance lease agreements. Cash payments of \$2,852,794 (2003: \$1,477,005) were made to purchase property, plant and equipment.

- (ii) Details of properties held by the Group as at 31 December 2004 are as follows:

Location	Description and existing use	Tenure/ unexpired term	Land area (sqm)	Net book value	
				2004 \$	2003 \$
<i>Held by the Company</i>					
- Leasehold land and buildings					
Nos. 69 & 71 Jalan Lekar, Singapore	Fish farming purposes	20 years from 11 November 1993	41,776	2,666,705	2,908,179
<i>Held by subsidiaries</i>					
- Leasehold land and factory buildings					
Meifa Industrial Zone, Anxi County, Fujian Province, PRC	Industrial use	20 years from 18 August 1996	18,187	–	294,329
- Leasehold land					
Nos. 30/25 Moo 8 Tumbol Klong Nung, Amphur Klong Laung Pathun Thani Province 12120, Thailand	Fish farming purposes	3 years from 15 August 2001	1,600	–	17,739
				<u>2,666,705</u>	<u>3,220,247</u>
			Balance carried forward	2,666,705	3,220,247

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

3. Property, plant and equipment (cont'd)

Location	Description and existing use	Tenure/ unexpired term	Land area (sqm)	Net book value	
				2004 \$	2003 \$
			Balance brought forward	2,666,705	3,220,247
- Freehold land and buildings					
Lot No 722 GM No 714 Mukim of Minyak Beku, District of Batu Pahat, Johor, Malaysia	Fish farming purposes	Freehold	11,761	4,986,100	4,835,644
Lot MLO No 1140 No 775 Mukim of Minyak Beku, District of Batu Pahat, Johor, Malaysia	Fish farming purposes	Freehold	24,281		
Lot No 1616, 1617, 4138, 4139, 4141, 4937 & 4938 Mukim of Linau, District of Batu Pahat, Johor, Malaysia	Fish farming purposes	Freehold	153,729		
Lot No 4137 GM No 3164 Mukim of Linau, District of Batu Pahat, Johor, Malaysia	Fish farming purposes	Freehold	43,478		
Lot No 4153 GM No 2096 Mukim of Linau, District of Batu Pahat, Johor, Malaysia	Fish farming purposes	Freehold	13,759		
Lot No 01490 Desa Lubang Buaya/Kantor Pertanahan	Fish farming purposes	Freehold	3,719	595,396	-
Lot No 0853, 01219, 01518, 01522, 01523 & 01528 Desa Lubang Buaya/Kantor Pertanahan Kabupaten Bekasi	Fish farming purposes	Freehold	3,683		
				8,248,201	8,055,891

4. Brooder stocks

	Group		Company	
	2004 \$	2003 \$	2004 \$	2003 \$
At cost				
As at 1 January	7,587,213	1,459,500	1,459,500	1,459,500
Balance attributable to a subsidiary acquired during the year	–	6,276,839	–	–
Translation difference	(271,138)	(149,126)	–	–
As at 31 December	7,316,075	7,587,213	1,459,500	1,459,500
Accumulated depreciation				
As at 1 January	249,511	87,570	116,760	87,570
Balance attributable to a subsidiary acquired during the year	–	73,190	–	–
Charge for the year	146,322	90,467	29,190	29,190
Translation difference	(5,874)	(1,716)	–	–
As at 31 December	389,959	249,511	145,950	116,760
Net book value				
As at 31 December	6,926,116	7,337,702	1,313,550	1,342,740

Financial Statements

95

The brooder stocks are parent stocks of Dragon Fish, held by the Group and the Company for the use in the breeding of Dragon Fish. Due to the uniqueness of each Dragon Fish and as an active market does not exist for the brooder stocks, the brooder stocks are stated at cost less accumulated depreciation and any impairment loss.

5. Investments in subsidiaries

(a) These comprise:

	Company	
	2004 \$	2003 \$
Unquoted equity investments, at cost		
As at 1 January	9,375,428	2,679,640
Additional investment during the year	1,722,908	6,695,788
Disposal of interests in subsidiaries	(1,750,446)	–
	9,347,890	9,375,428
Less: Provision for impairment in value of investment	–	(400,000)
As at 31 December	9,347,890	8,975,428

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

5. Investments in subsidiaries (cont'd)

Movement in provision for impairment in value of investment during the financial year is as follows:

	Company	
	2004	2003
	\$	\$
As at 1 January	400,000	–
Provision utilised upon disposal of interest in subsidiary	(400,000)	–
Provision made during the year	–	400,000
As at 31 December	–	400,000

(b) Details of the subsidiaries as at 31 December 2004 are as follows:

Qian Hu 2004

96

Name	Principal activities	Country of incorporation and business	Effective equity interest held by the Group		Cost of investment by the Company	
			2004	2003	2004	2003
			%	%	\$	\$
<i>Held by the Company</i>						
* Qian Hu Tat Leng Plastic Pte Ltd	Manufacture of plastic bags	Singapore	100	100	57,050	57,050
† Jiang Nan Holdings Pte. Ltd.	Investment holding	Singapore	–	100	–	2
** Qian Hu Aquarium and Pets (M) Sdn Bhd	Trading and distribution of ornamental fish and aquarium and pet accessories	Malaysia	100	100	150,451	150,451
# Kim Kang Aquaculture Sdn Bhd	Breeding, trading of ornamental fish and distribution of aquarium and pet accessories	Malaysia	65	65	7,699,891 [@]	6,695,788
†† Fujian Anxi Qianlong Plastics Private Co., Ltd	Manufacture of plastic bags	People's Republic of China	–	100	–	1,750,444
†† Beijing Qian Hu Aquarium and Pets Co., Ltd (formerly known as Beijing Qianyang Aquarium Co., Ltd)	Import and export of cold-water ornamental fish and distribution of aquarium accessories	People's Republic of China	100	100	171,824	171,824

Balance carried forward 8,079,216 8,825,559

5. Investments in subsidiaries (cont'd)

Name	Principal activities	Country of incorporation and business	Effective equity interest held by the Group		Cost of investment by the Company	
			2004 %	2003 %	2004 \$	2003 \$
<i>Held by the Company (cont'd)</i>			Balance brought forward		8,079,216	8,825,559
†† Guangzhou Wan Jiang Technology Co., Ltd	Manufacture of aquarium and pet accessories	People's Republic of China	80	60	492,859	249,054
†† Qian Hu Marketing Co Ltd	Distribution of aquarium and pet accessories	Thailand	74♦	74♦	148,262	148,262
†† Thai Qian Hu Company Limited	Import and export of ornamental fish	Thailand	60	60	121,554	121,554
†† NNLT (Thailand) Limited	Investment holding	Thailand	49®	49®	30,999	30,999
†† PT Qian Hu Aquarium and Pets Indonesia	Trading and distribution of ornamental fish and aquarium and pet accessories	Indonesia	55	–	475,000	–
<i>Held by subsidiary</i>						
†† Qian Hu The Pet Family (M) Sdn Bhd (formerly known as Atlantis Aquarium Sdn Bhd)	Trading of ornamental fish and aquarium accessories	Malaysia	100	100	–	–
					9,347,890	9,375,428

* Audited by Ernst & Young, Singapore.

** Audited by Ernst & Young, Malaysia.

Audited by Cheng & Co.

† Strike off in November 2004.

†† Audited by other certified public accountants. These subsidiaries are not significant as defined under Listing Rule 718 of the Singapore Exchange Listing Manual.

♦ This represents the Group's effective interest in Qian Hu Marketing Co Ltd. The Company holds a 49% direct interest in Qian Hu Marketing Co Ltd and the remaining effective 25% is held through a subsidiary, NNLT (Thailand) Limited.

® NNLT (Thailand) Limited is considered a subsidiary of the Company as the Company has voting control at general meetings and Board meetings of NNLT (Thailand) Limited.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

5. Investments in subsidiaries (cont'd)

@@ According to the Sales and Purchase Agreement entered into between the Company and the vendors of Kim Kang Aquaculture Sdn Bhd ("Kim Kang"), the Company will pay additional amounts to the vendors based on profits to be achieved by Kim Kang as set out below:

- (i) in the event that the profit before tax of Kim Kang based on its audited accounts for financial year ended 31 December 2003 is at least RM 3,000,000, the Company shall pay the vendors \$1,034,091 ("Earned-out 2003"), half of which shall be satisfied by the payment of cash and the other half to be satisfied by the issuance of ordinary shares of the Company at \$0.96 each. The amount to be paid to the vendors shall be pro-rated should the profit before tax be less than RM 3,000,000.
- (ii) in the event that the profit before tax of Kim Kang based on its audited accounts for financial year ended 31 December 2004 is at least RM 4,000,000, the Company shall pay the vendors \$1,034,091 ("Earned-out 2004"), half of which shall be satisfied by the payment of cash and the other half to be satisfied by the issuance of ordinary shares of the Company at \$0.96 each. The amount to be paid to the vendors shall be pro-rated should the profit before tax be less than RM 4,000,000.
- (iii) the vendors are entitled to receive the remaining balance of the Earned-out amount for 2003 and 2004 if the profit shortfall for financial years 2003 and 2004 is met by the financial year ending 31 December 2006.

As at 31 December 2004, the total purchase consideration has been accrued for. Accordingly, the cost of investment of Kim Kang and the goodwill on consolidation have been adjusted.

On 17 December 2004, the Company incorporated a wholly-owned subsidiary, Shanghai Qian Hu Aquarium and Pets Co., Ltd, with a registered capital of US\$650,000. As at 31 December 2004, the Company has not made any capital contribution into this subsidiary.

6. Investments in associates

(a) These comprise:

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Unquoted equity investment, at cost				
As at 1 January	66,444	–	28,722	28,722
Additional investment during the year	–	66,444	–	–
Share of post-acquisition losses	(66,444)	–	–	–
As at 31 December	–	66,444	28,722	28,722

6. Investments in associates (cont'd)

(b) Details of the associates as at 31 December 2004 are as follows:

Name	Principal activities	Country of incorporation and business	Effective equity interest held by the Group	
			2004 %	2003 %
<i>Held by the Company</i>				
Jin Jien Hsing Enterprise Co., Ltd	Distribution of pet food and accessories	Republic of China	50	50
<i>Held by subsidiary</i>				
PLC Pet Safari (Kuala Lumpur) Sdn Bhd	Properties management and investment	Malaysia	49	49

Financial Statements

99

7. Intangible assets

Intangible assets consists of:

- (i) Trademarks/customer acquisition costs relate to costs paid to third parties in relation to the acquisition of trademarks rights and existing customer base of two brands of pet food, namely "ARISTO-CATS YI HU" and "NATURE's Gift".
- (ii) Product listing fees relate to cost paid to third parties in relation to the entitlements to list and sell the Company's products in certain supermarkets.
- (iii) Goodwill on consolidation represent the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

7. Intangible assets (cont'd)

Group

	Trademarks/ customer acquisition costs \$	Product listing fees \$	Goodwill on consolidation \$	Total \$
At cost				
As at 1 January 2004	630,281	40,440	815,898	1,486,619
Additions during the year	9,433	67,902	1,054,967	1,132,302
Translation difference	(808)	–	–	(808)
As at 31 December 2004	638,906	108,342	1,870,865	2,618,113
Accumulated amortisation				
As at 1 January 2004	549,968	34,747	40,795	625,510
Amortisation for the year	43,602	13,176	91,000	147,778
Translation difference	(484)	–	–	(484)
As at 31 December 2004	593,086	47,923	131,795	772,804
Amortisation charge for 2003	33,095	9,320	40,795	83,210
Net book value				
As at 31 December 2004	45,820	60,419	1,739,070	1,845,309
As at 31 December 2003	80,313	5,693	775,103	861,109

7. Intangible assets (cont'd)

Company

	Trademarks/ customer acquisition costs \$	Product listing fees \$	Total \$
At cost			
As at 1 January 2004	612,031	40,440	652,471
Additions during the year	9,433	67,902	77,335
	<hr/>	<hr/>	<hr/>
As at 31 December 2004	621,464	108,342	729,806
Accumulated amortisation			
As at 1 January 2004	539,029	34,747	573,776
Amortisation for the year	39,420	13,176	52,596
	<hr/>	<hr/>	<hr/>
As at 31 December 2004	578,449	47,923	626,372
	<hr/>	<hr/>	<hr/>
Amortisation charge for 2003	27,013	9,320	36,333
	<hr/>	<hr/>	<hr/>
Net Book Value			
As at 31 December 2004	43,015	60,419	103,434
	<hr/>	<hr/>	<hr/>
As at 31 December 2003	73,002	5,693	78,695
	<hr/>	<hr/>	<hr/>

8. Land use rights

This relates to land use rights acquired by one of the subsidiaries, Fujian Anxi Qianlong Plastics Private Co., Ltd, in the People's Republic of China.

	Group	
	2004 \$	2003 \$
At cost		
As at 1 January	93,705	230,369
Disposal during the year	(93,705)	(133,780)
Translation differences	-	(2,884)
	<hr/>	<hr/>
Less: Accumulated amortisation	-	93,705 (3,891)
	<hr/>	<hr/>
As at 31 December	-	89,814
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

8. Land use rights (cont'd)

Movements in accumulated amortisation during the financial year are as follows:

	Group	
	2004	2003
	\$	\$
As at 1 January	3,891	17,716
Amortisation for the year	328	1,966
Disposal during the year	(4,219)	(15,670)
Translation differences	–	(121)
As at 31 December	–	3,891

Qian Hu 2004

102

9. Inventories

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Fish	4,002,706	1,772,998	1,484,260	963,551
Accessories and gift items	15,842,868	12,719,142	4,057,833	4,027,462
Finished goods - plastic products	382,232	488,645	–	–
Raw materials - plastic products	106,149	192,245	–	–
	20,333,955	15,173,030	5,542,093	4,991,013
Less: Provision for inventory obsolescence	(424,109)	(450,577)	(330,319)	(356,787)
	19,909,846	14,722,453	5,211,774	4,634,226

Movements in provision for inventory obsolescence during the financial year are as follows:

As at 1 January	450,577	450,577	356,787	356,787
Amount written off against provision	(26,468)	–	(26,468)	–
As at 31 December	424,109	450,577	330,319	356,787

10. Breeder stocks

As at 1 January	1,493,690	–	188,000	–
Gain arising from changes in fair values less estimated point-of-sale costs attributable to physical changes	228,110	1,493,690	57,800	188,000
As at 31 December	1,721,800	1,493,690	245,800	188,000

11. Trade receivables

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Trade receivables	14,528,261	13,762,756	7,386,046	7,397,559
Less: Provision for doubtful trade receivables	(853,837)	(642,163)	(700,671)	(511,060)
	<u>13,674,424</u>	<u>13,120,593</u>	<u>6,685,375</u>	<u>6,886,499</u>

Movements in provision for doubtful trade receivables during the year are as follows:

As at 1 January	642,163	814,636	511,060	682,741
Provision made during the year	384,659	285,759	256,179	262,464
Amount written off against provision	(172,985)	(458,232)	(66,568)	(434,145)
	<u>853,837</u>	<u>642,163</u>	<u>700,671</u>	<u>511,060</u>

Financial Statements

103

12. Other receivables, deposits and prepayments

Deposits	346,759	82,527	34,330	41,109
Prepayments	247,836	119,144	76,819	34,250
Advances to employees	2,631	1,766	–	–
Advances to suppliers	535,608	705,534	–	–
Deposit on purchase of property, plant and equipment	–	419,497	–	–
	<u>1,132,834</u>	<u>1,328,468</u>	<u>111,149</u>	<u>75,359</u>
Other receivables	659,642	442,450	169,035	200,132
Less: Provision for doubtful non-trade receivables	–	(6,179)	–	(6,179)
	<u>659,642</u>	<u>436,271</u>	<u>169,035</u>	<u>193,953</u>
Total	<u>1,792,476</u>	<u>1,764,739</u>	<u>280,184</u>	<u>269,312</u>

Movements in provision for doubtful non-trade receivables during the financial year are as follows:

As at 1 January	6,179	6,179	6,179	6,179
Provision written back during the year	(6,179)	–	(6,179)	–
	<u>–</u>	<u>6,179</u>	<u>–</u>	<u>6,179</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

13. Due from subsidiaries/minority shareholders of subsidiaries (non-trade)

These amounts are unsecured, interest-free and have no fixed terms of repayment.

14. Due from associates

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Due from associates	874,471	662,105	643,627	636,625
Less: Provision for amount due from associates	(80,000)	–	(80,000)	–
	<u>794,471</u>	<u>662,105</u>	<u>563,627</u>	<u>636,625</u>

Qian Hu 2004

104

Movements in provision for amount due from associates during the financial year are as follows:

As at 1 January	–	–	–	–
Provision made during the year	80,000	–	80,000	–
As at 31 December	<u>80,000</u>	<u>–</u>	<u>80,000</u>	<u>–</u>

15. Fixed deposits

A subsidiary's fixed deposits amounting to approximately \$78,000 had been pledged with a bank to secure a performance guarantee granted by that bank in the previous year.

The fixed deposits bore average effective interest rate of 0.94% per annum with maturity of one year from the end of year 2003.

16. Bills payable to banks and bank overdraft

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Secured	395,712	–	–	–
Unsecured	893,716	1,950,423	893,716	1,950,423
	<u>1,289,428</u>	<u>1,950,423</u>	<u>893,716</u>	<u>1,950,423</u>

As at 31 December 2004, the average effective interest rate of bills payable of the Group and of the Company is 5.25% (2003: 5.75%) per annum. These bills mature within 1 to 3 months from the year end.

The bills payable and bank overdraft are secured by a mortgage on a subsidiary's freehold land.

17. Other payables and accruals

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Accrued operating expenses	1,250,377	1,012,816	902,817	661,110
Other payables	1,648,734	2,113,758	1,394,718	1,457,117
Advance received from customers	–	53,258	–	–
	<u>2,899,111</u>	<u>3,179,832</u>	<u>2,297,535</u>	<u>2,118,227</u>

18. Finance lease obligations

Group

2004

	Payments	Interest	Principal
	\$	\$	\$
Payable:			
After 1 year but within 5 years	522,240	(85,668)	436,572
Within 1 year	375,727	(55,024)	320,703
	<u>897,967</u>	<u>(140,692)</u>	<u>757,275</u>

2003

Payable:			
After 1 year but within 5 years	783,871	(133,068)	650,803
Within 1 year	372,773	(59,446)	313,327
	<u>1,156,644</u>	<u>(192,514)</u>	<u>964,130</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

18. Finance lease obligations (cont'd)

Company

2004

	Payments \$	Interest \$	Principal \$
Payable:			
After 1 year but within 5 years	265,933	(48,323)	217,610
Within 1 year	161,909	(28,354)	133,555
	<u>427,842</u>	<u>(76,677)</u>	<u>351,165</u>

2003

Payable:			
After 1 year but within 5 years	460,018	(81,905)	378,113
Within 1 year	194,972	(33,636)	161,336
	<u>654,990</u>	<u>(115,541)</u>	<u>539,449</u>

Lease terms range from 2 to 7 years with options to purchase at the end of the lease term. Lease terms do not contain restrictions concerning dividends, additional debt or further leasing. The average discount rates implicit of the Group's and Company's finance lease obligations are 6.53% and 6.82% (2003: 7.13% and 7.77%) per annum respectively.

19. Bank term loans

	Group		Company	
	2004 \$	2003 \$	2004 \$	2003 \$
Due within 1 year:				
- short-term loans (unsecured)	7,295,000	241,280	7,295,000	-
- long-term loans, current portion (secured)	145,082	208,124	-	-
	<u>7,440,082</u>	<u>449,404</u>	<u>7,295,000</u>	<u>-</u>
Due after 1 year:				
- long-term loans (secured)	1,045,891	932,834	-	-
	<u>8,485,973</u>	<u>1,382,238</u>	<u>7,295,000</u>	<u>-</u>

19. Bank term loans (cont'd)

The unsecured short-term loans are revolving bank loans which bore interest at rates ranging from 3.13% to 3.94% (2003: 5.3%) per annum.

The secured long-term loans comprise:

- a 8-year bank loan of \$1.1 million, bears interest at 7.9% (2003: 7.9%) per annum and is repayable in 96 monthly instalments commencing July 2003; and
- a 7-year bank loan of \$0.2 million, bears interest at 7.75% (2003: Nil) per annum and is repayable in 84 instalments commencing January 2005.

The long-term loans are secured by a mortgage on a subsidiary's freehold land and buildings.

20. Share capital

Company

	2004	2003	2004	2003
	No. of shares	No. of shares	\$	\$
Authorised:				
Ordinary shares of \$0.10 each	200,000,000	200,000,000	20,000,000	20,000,000
Issued and fully paid:				
As at 1 January				
Ordinary shares of \$0.10 each	106,268,469	102,970,700	10,626,847	10,297,070
Issue of ordinary shares of \$0.10 each	643,482	3,297,769	64,348	329,777
Bonus issue of ordinary shares of \$0.10 each	21,299,287	-	2,129,929	-
As at 31 December				
Ordinary shares of \$0.10 each	128,211,238	106,268,469	12,821,124	10,626,847

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

20. Share capital (cont'd)

During the financial year, the Company:

- (a) Issued 228,000 ordinary shares for cash at a premium of \$0.14 per share upon the exercise of share options previously granted;
- (b) Issued 415,482 ordinary shares at a premium of \$0.86 per share as partial purchase consideration for the acquisition of a subsidiary; and
- (c) Capitalised \$2,129,929 from share premium account by way of bonus issue of 21,299,287 ordinary shares of \$0.10 each credited as fully paid on the basis of one bonus share for every five existing shares held by the shareholders of the Company.

Qian Hu Pre-IPO Employees' Share Option Scheme (the "Pre-IPO Scheme")

There were no options granted and no options were cancelled due to resignation of employees in the current and previous financial year. At the end of the financial year, there were no (2003: 228,000) unissued ordinary shares of \$0.10 each of the Company under options granted to eligible employees of the Group, other than directors and controlling shareholders of the Company, under the Pre-IPO Scheme at \$0.24 per share.

Qian Hu Post-IPO Employees' Share Option Scheme (the "Post-IPO Scheme")

There were no options (2003: Nil) granted and 134,000 (2003: 122,000) options were cancelled due to resignation of employees in the current financial year. At the end of the financial year, there were 1,338,000 (2003: 1,472,000) unissued ordinary shares of \$0.10 each of the Company under options granted to eligible employees of the Group, including associates of controlling shareholders of the Company, under the Post-IPO Scheme at \$0.59 per share.

21. Reserves

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Share premium				
As at 1 January	7,281,785	4,714,984	7,281,785	4,714,984
Arising from the issue of 228,000 (2003: 374,000) ordinary shares upon exercise of share options at a premium of \$0.14 each	31,920	52,360	31,920	52,360
Arising from the issue of 415,482 (2003: 2,923,769) ordinary shares for the acquisition of a subsidiary at a premium of \$0.86 each	357,316	2,514,441	357,316	2,514,441
Capitalisation of share premium account for bonus issue of shares	(2,129,929)	–	(2,129,929)	–
As at 31 December	5,541,092	7,281,785	5,541,092	7,281,785
Revenue reserve				
As at 1 January	18,828,755	12,777,602	13,559,124	9,810,202
Net profit for the year	1,627,282	7,015,773	2,039,150	4,713,542
Dividends (Note 28)	(511,183)	(964,620)	(511,183)	(964,620)
As at 31 December	19,944,854	18,828,755	15,087,091	13,559,124
Translation reserve				
As at 1 January	(186,303)	87,758	–	–
Net movement during the year	(491,526)	(274,061)	–	–
As at 31 December	(677,829)	(186,303)	–	–
Total	24,808,117	25,924,237	20,628,183	20,840,909

The share premium account may be applied only for the purposes specified in the Companies Act. The balance is not available for distribution of dividends except in the form of shares.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

22. Turnover

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Sales of goods				
- Fish	31,179,839	27,466,041	20,742,151	22,064,101
- Accessories	27,306,844	33,645,868	18,436,127	25,162,614
- Plastics	7,005,339	6,567,860	-	-
	65,492,022	67,679,769	39,178,278	47,226,715

23. Profit from operations

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
This is determined after charging (crediting) the following:				
Auditors' remuneration				
- auditors of the Company	66,000	62,000	55,000	50,000
- other auditors	12,437	11,186	-	-
Non-audit fees				
- auditors of the Company	13,933	17,250	8,850	12,200
- other auditors	15,000	15,000	15,000	15,000
Directors' fees				
- directors of the Company (Note 24)	30,000	30,000	30,000	30,000
Directors' remuneration				
- directors of the Company (Note 24)	530,535	497,867	530,535	497,867
- directors of subsidiaries	610,188	384,705	-	-
Amortisation of				
- trademarks/customer acquisition costs and product listing fees (Note 7)	56,778	42,415	52,596	36,333
- goodwill on consolidation (Note 7)	91,000	40,795	-	-
- land use rights (Note 8)	328	1,966	-	-
Bad trade receivables written off	15,463	-	1,057	-
Depreciation of				
- property, plant and equipment (Note 3)	1,936,165	1,563,432	692,233	744,061
- brooder stocks (Note 4)	146,322	90,467	29,190	29,190
Property, plant and equipment written off	-	13,113	-	-
Loss (gain) on disposal of				
- property, plant and equipment	2,384	(34,963)	9,810	(30,097)
- land use rights	-	(9,090)	-	-
- a subsidiary	55,221	-	127,209	-
Provision for				
- doubtful trade receivables (Note 11)	384,659	285,759	256,179	262,464
- due from associates (Note 14)	80,000	-	80,000	-
- impairment in value of investment in a subsidiary (Note 5)	-	-	-	400,000
Provision for doubtful non-trade receivables written back (Note 12)	(6,179)	-	(6,179)	-
Operating lease expenses	693,506	608,288	107,048	119,159
Personnel expenses (Note 25)	8,910,364	7,923,959	4,851,088	5,008,354
Exchange loss (gain), net	187,118	(279,704)	(4,190)	(255,291)
Gain arising from changes in fair values less estimated point-of-sale costs attributable to physical changes of breeder stocks (Note 10)	(228,110)	(1,493,690)	(57,800)	(188,000)

24. Directors' remuneration

Number of directors of the Company in remuneration bands is as follows:

	2004	2003
\$500,000 and above	–	–
\$250,000 to \$499,999	–	–
Below \$250,000	7	6
	<hr/>	<hr/>
	7	6

Summary of compensation tables for the year ended 31 December 2004 and 2003:

Name of director	Salary and Bonus* \$	Directors' fees \$	Total \$
2004			
Kenny Yap Kim Lee	171,405	–	171,405
Alvin Yap Ah Seng	164,320	–	164,320
Andy Yap Ah Siong	163,080	–	163,080
Robson Lee Teck Leng	–	10,000	10,000
Chang Weng Leong	–	10,000	10,000
Tan Tow Ee	–	10,000	10,000
Lai Chin Yee	31,730	–	31,730
	<hr/>	<hr/>	<hr/>
Total	530,535	30,000	560,535
2003			
Kenny Yap Kim Lee	170,160	–	170,160
Alvin Yap Ah Seng	160,727	–	160,727
Andy Yap Ah Siong	166,980	–	166,980
Robson Lee Teck Leng	–	10,000	10,000
Chang Weng Leong	–	10,000	10,000
Tan Tow Ee	–	10,000	10,000
	<hr/>	<hr/>	<hr/>
Total	497,867	30,000	527,867

Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

25. Personnel expenses

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Salaries and bonus	7,896,068	6,834,632	4,374,854	4,430,881
Provident Fund contributions	602,762	673,207	362,397	454,260
Staff welfare benefits	411,534	416,120	113,837	123,213
	<hr/>	<hr/>	<hr/>	<hr/>
	8,910,364	7,923,959	4,851,088	5,008,354
	<hr/>	<hr/>	<hr/>	<hr/>
Number of persons employed at the end of the financial year	766	637	126	120

Included in personnel expenses is directors' remuneration of the Group and of the Company amounting to \$1,140,723 and \$530,535 (2003: \$882,572 and \$497,867) respectively.

Qian Hu 2004

112

26. Financial (expenses) income

Interest expense				
- bank term loans	(196,605)	(44,406)	(118,540)	-
- hire purchase	(72,464)	(66,890)	(33,475)	(34,602)
- bank overdrafts	(22,238)	(4,428)	(16,727)	(158)
- bills payable	(88,300)	(105,743)	(75,686)	(105,743)
	<hr/>	<hr/>	<hr/>	<hr/>
	(379,607)	(221,467)	(244,428)	(140,503)
	<hr/>	<hr/>	<hr/>	<hr/>
Interest income				
- fixed deposits	-	478	-	478
- others	2,916	6,918	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	2,916	7,396	-	478

27. Taxation

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Current tax				
- current year	979,209	1,167,816	350,000	930,000
- under provision in respect of prior year	30,182	-	30,000	-
Deferred tax				
- current year	231,805	616,532	-	-
- over provision in respect of prior year	(29,000)	-	(23,000)	-
	<u>1,212,196</u>	<u>1,784,348</u>	<u>357,000</u>	<u>930,000</u>

A reconciliation of the tax expense and the product of accounting profit multiplied by the applicable rate for the years ended 31 December was as follows:

Financial Statements

113

Accounting profit	3,488,199	9,553,651	2,396,150	5,643,542
Tax at the applicable tax rate of 20% (2003: 22%)	697,640	2,101,803	479,230	1,241,579
Tax effect of expenses which are not deductible for tax purposes	57,046	51,767	22,476	64,671
Tax exemption	(21,000)	(96,873)	(10,500)	(11,550)
Tax savings arising from Development and Expansion Incentive*	(191,941)	(364,700)	(191,941)	(364,700)
Tax effect of different tax rate in other countries	114,619	92,351	-	-
Under provision in respect of prior year	30,182	-	30,000	-
Effect of change in tax rates	(29,000)	-	(23,000)	-
Deferred tax assets not recognised	617,389	-	-	-
Others	(62,739)	-	50,735	-
Tax expense	<u>1,212,196</u>	<u>1,784,348</u>	<u>357,000</u>	<u>930,000</u>

* In July 2003, the Economic Development Board has granted a Development and Expansion Incentive under the International Headquarters (IHQ) Award to the Company. With the incentive, the Company enjoys a concessionary tax rate of 10% on its qualifying income for a period of 5 years commencing 1 January 2003.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

27. Taxation (cont'd)

Deferred taxation at 31 December related to the following:

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Deferred tax liability				
Tax over book depreciation	849,439	649,200	259,000	276,000
Gain arising from changes in fair values less estimated point-of-sale costs attributable to physical changes of breeder stocks	399,000	391,600	11,000	41,000
	<u>1,248,439</u>	<u>1,040,800</u>	<u>270,000</u>	<u>317,000</u>
Deferred tax asset				
Provisions	<u>(81,000)</u>	<u>(69,000)</u>	<u>(35,000)</u>	<u>(59,000)</u>
Net deferred tax liability	<u>1,167,439</u>	<u>971,800</u>	<u>235,000</u>	<u>258,000</u>

The Group

In accordance with the "Income Tax Law of the People's Republic of China ("PRC") for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

The Group has unutilised tax losses of approximately \$2,177,453 (2003: \$Nil) available for offset against future taxable profits, subject to the agreement of the tax authorities and compliance with relevant provisions of the tax legislation of the respective countries in which the subsidiaries operate. The potential deferred tax assets arising from these unutilised tax losses have not been recognised in the financial statements in accordance with the Group's accounting policy.

28. Dividends

	Group and Company	
	2004	2003
	\$	\$
During the financial year, the following dividends were paid:		
Final dividend in respect of the previous year of 0.6 cents per share less tax of 20% (2003: 0.6 cents per share less tax of 22%)	511,183	481,903
Special dividend in respect of the financial year ended 31 December 2002 of 0.6 cents per share less tax of 22%	–	481,903
Additional dividend paid in respect of the previous financial year arising from issue of shares under the Qian Hu Pre-IPO Employees' Share Option Scheme before books closure date	–	814
	<u>511,183</u>	<u>964,620</u>

Financial Statements

115

There is no final dividend proposed in respect of the year ended 31 December 2004.

The directors proposed a final dividend of 0.6 cents per share less tax at 20% amounting to \$511,183 in respect of the year ended 31 December 2003, which was approved at the Annual General Meeting of the Company.

29. Earnings per share

Basic earnings per share

The calculation for basic earnings per share is based on consolidated profit after taxation and minority interest of \$1,627,282 (2003: \$7,015,773).

Number of shares

The weighted average number of ordinary shares is arrived at as follows:

	Weighted average number of shares	
	2004	2003
Issued ordinary shares at beginning of year	106,268,469	102,970,700
Adjustments for bonus issue of shares	21,299,287	21,299,287
Weighted average number of ordinary shares issued during the year	448,984	1,478,608
	<u>128,016,740</u>	<u>125,748,595</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

29. Earnings per share (cont'd)

Diluted earnings per share

When calculating diluted earnings per share, the weighted average number of shares is adjusted for the effect of all dilutive potential ordinary shares. The number of unissued shares under options granted under the Qian Hu Pre-IPO Employees' Share Option Scheme and Qian Hu Post-IPO Employees' Share Option Scheme and their exercise prices are set out in the Directors' Report and Note 31 to the financial statements. The average fair value of one ordinary share during financial year 2004 was \$0.55 per share. The weighted average number of ordinary shares adjusted for the unissued shares under option is as follows:

	2004	2003
<i>Number of shares</i>		
Weighted average number of ordinary shares (used in the calculation of basic earnings per share)	128,016,740	125,748,595
Weighted average number of ordinary shares under option	1,446,954	2,020,693
Number of shares that would have been issued at fair value	(1,435,867)	(1,397,296)
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted)	128,027,827	126,371,992

The basic earnings per share and diluted earnings per share for financial year 2003 have been adjusted to account for the bonus issue of shares during financial year 2004.

30. Related party transactions

In addition to the related party information disclosed elsewhere in the financial statements, significant transactions with related parties, on terms agreed between the parties were as follows:

	Group		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
(a) Income				
Sales to subsidiaries	–	–	8,522,579	8,720,352
(b) Expenses				
Purchases from subsidiaries	–	–	3,720,839	4,507,868
Fees paid to a firm in which a director is a member	93,500	40,000	93,500	40,000
Consultancy fee paid to a company in which a director has substantial interest	36,250	17,500	32,750	–
	<hr/>			

31. Employee benefits

(a) Qian Hu Pre-IPO Employees' Share Option Scheme (the "Pre-IPO Scheme")

The Pre-IPO Scheme was approved and adopted at the Company's Extraordinary General Meeting held on 9 October 2000 to enable eligible employees of the Group, other than directors and controlling shareholders of the Company, to participate in the equity of the Company. The Pre-IPO Scheme is administered by the Pre-IPO Option Committee, comprising three directors, Kenny Yap Kim Lee, Chang Weng Leong and Robson Lee Teck Leng.

On 25 October 2000, the following 3,332,000 options were granted to 93 employees of the Group to subscribe for ordinary shares of the Company of \$0.10 each at an exercise price of \$0.24 per share ("Pre-IPO Options"). Of this amount, 506,000 shares were granted to 10 employees of the Group who are associates of the controlling shareholders of the Company.

Option category	No. of holders	Exercise period	Exercise price (per share)	No. of shares under option
Grade C (Entry and mid-level)	41	8/11/2000 - 24/10/2010	24 cents	506,000
Grade B (Manager)	34	8/11/2001 - 24/10/2010	24 cents	1,482,000
Grade A (Senior Manager)	18	8/11/2001 - 24/10/2010	24 cents	1,344,000
	<u>93</u>			<u>3,332,000</u>

Other information regarding the Pre-IPO Scheme are set out below:

- Size of Plan**

The total number of new shares over which options may be granted shall not exceed 5% of the issued share capital of the Company on the day immediately preceding the offer date of the options ("Offer Date").
- Grant of Option**

Options may be granted from time to time during the period when the Pre-IPO Scheme is in force, except that option shall only be granted on or after third market day on which an announcement on any matter involving unpublished price sensitive information is released.
- Acceptance of Option**

The grant of an option shall be accepted within 30 days from the Offer Date and accompanied by payment to the Company of a nominal consideration of \$1.
- Exercise price**

The exercise price of the option is \$0.24 per share.
- Option Period**

The options are exercisable, in whole or in part at any time in accordance with the relevant applicable vesting schedule set out in the terms and rules of the Pre-IPO Scheme up to the time (and including) the day immediately preceding the tenth anniversary of the Offer Date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

31. Employee benefits (cont'd)

As at the end of the financial year, details of the options granted under the Pre-IPO Scheme on the unissued ordinary shares of \$0.10 each of the Company were as follows:

Date of grant of options	Exercise price	No. of options outstanding 1 Jan 2004	Options granted	Options exercised	Options cancelled	No. of options outstanding 31 Dec 2004	Exercise period
25 Oct 2000	\$0.24	228,000	–	(Note 20) 228,000 [@]	–	–	8 Nov 2000 to 24 Oct 2010 (Grade C category)
							8 Nov 2001 to 24 Oct 2010 (Grade A and B category)

Qian Hu 2004

118

[@] During the financial year, a total of 228,000 ordinary shares of \$0.10 each of the Company were issued fully paid at \$0.24 per share as indicated above, for cash upon the exercise of share options. The proceeds of \$22,800 and \$31,920 were credited to the share capital and share premium account respectively. The market prices of the shares on the various dates of exercise of the options ranged from \$0.78 to \$0.80 per share.

(b) Qian Hu Post-IPO Employees' Share Option Scheme (the "Post-IPO Scheme")

The Post-IPO Scheme was approved and adopted at the Company's Extraordinary General Meeting held on 9 October 2000 to enable eligible employees of the Group, other than directors and controlling shareholders of the Company including their associates, to participate in the equity of the Company. The Post-IPO Scheme is administered by the Post-IPO Option Committee, comprising three directors, Chang Weng Leong, Robson Lee Teck Leng and Tan Tow Ee.

At an Extraordinary General Meeting held on 19 February 2002, the following modifications to the Post-IPO Scheme were approved by the shareholders of the Company:

- The Post-IPO Scheme will be extended to include the participation of associates of controlling shareholders. Such associates must be confirmed full-time employees.
- The exercise price of the Post-IPO options will be set at a discount of 20% to the prevailing market price of the shares. The associates of controlling shareholders will be entitled to the same rate of discount to the market price of the shares as other employees who are selected by the Committee to receive discounted options.

31. Employee benefits (cont'd)

Other information regarding the Post-IPO Scheme are set out below:

- **Size of Plan**

The total number of new shares over which options may be granted shall not exceed 10% of the issued share capital of the Company on the day immediately preceding the offer date of the options ("Offer Date").

- **Grant of Option**

Options may be granted from time to time during the period when the Post-IPO Scheme is in force, except that option shall only be granted on or after third market day on which an announcement on any matter involving unpublished price sensitive information is released.

- **Acceptance of Option**

The grant of an option shall be accepted within 30 days from the Offer Date and accompanied by payment to the Company of a nominal consideration of \$1.

- **Exercise Period**

The exercise period of an option granted at a discount of 20% to the prevailing market price of the shares commences after two years from the Offer Date.

As at the end of the financial year, details of the options granted under the Post-IPO Scheme on the unissued ordinary shares of \$0.10 each of the Company were as follows:

Date of grant of options	Exercise price	No. of options outstanding 1 Jan 2004	Options granted	Options exercised	Options cancelled	No. of options outstanding 31 Dec 2004	Exercise period
1 August 2002	\$0.59	1,472,000	–	–	134,000	1,338,000	1 August 2004 to 31 July 2012

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

32. Commitments

As at 31 December 2004, the Group and the Company have commitments for future minimum lease payments under non-cancellable operating lease with terms of more than one year as follows:

	Group		Company	
	2004 \$	2003 \$	2004 \$	2003 \$
Future minimum lease payments				
- Within 1 year	277,000	222,000	72,000	98,000
- After 1 year but within 5 years	501,000	398,000	228,230	361,000
- After 5 years	118,000	443,000	118,000	411,000
	<hr/>	<hr/>	<hr/>	<hr/>
	896,000	1,063,000	418,230	870,000

Lease terms do not contain restrictions on the Group's and the Company's activities concerning dividends, additional debt or further leasing.

33. Contingent liabilities

During the financial year, there were corporate guarantees given by the Company to banks for banking facilities extended to 3 subsidiaries amounting to \$4.0 million (2003: \$2.1 million). In addition, corporate guarantee of \$132,000 (2003: \$138,000) was given by one of the subsidiaries to a bank for credit facilities granted to an associate.

As at 31 December 2004, \$1,190,973 (2003: \$1,382,238) had been utilised and is reflected in Note 19 to the financial statements.

34. Segment information

(a) Analysis by Business Segments

The Group is organised on a worldwide basis into three main operating segments, namely:

- (a) Fish - farming, breeding, distribution and trading of ornamental fish
- (b) Accessories - manufacturing, and distribution of aquarium and pet accessories
- (c) Plastics - manufacturing of plastic bags

Inter-segment pricing is on an arm's length basis.

34. Segment information (cont'd)

2004	Fish \$'000	Accessories \$'000	Plastics \$'000	Eliminations \$'000	Group \$'000
Turnover					
External sales	31,180	27,307	7,005	–	65,492
Inter-segment sales	6,449	6,082	145	(12,676)	–
Total sales	37,629	33,389	7,150	(12,676)	65,492
Results					
Segment results	4,422	406	313	(10)	5,131
Unallocated expenses					(1,267)
					3,864
Financial expenses (net)					(377)
Share of losses of associates					(66)
Taxation					(1,212)
Minority interests					(582)
Net profit for the year					1,627
Assets and Liabilities					
Assets	32,953	26,317	3,605	–	62,875
Unallocated assets					2,007
Total assets					64,882
Liabilities	6,151	3,099	1,093	–	10,343
Unallocated liabilities					12,149
Total liabilities					22,492
Other information					
Capital expenditure	1,251	1,594	172	–	3,017
Depreciation and amortisation	1,153	759	319	–	2,231
Other non-cash expenses	38	113	72	–	223

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

34. Segment information (cont'd)

2003	Fish \$'000	Accessories \$'000	Plastics \$'000	Eliminations \$'000	Group \$'000
Turnover					
External sales	27,466	33,646	6,568	–	67,680
Inter-segment sales	2,540	11,168	973	(14,681)	–
Total sales	30,006	44,814	7,541	(14,681)	67,680
Results					
Segment results	5,402	5,377	265	(25)	11,019
Unallocated expenses					(1,251)
					9,768
Financial expenses (net)					(214)
Taxation					(1,784)
Minority interests					(754)
Net profit for the year					7,016
Assets and Liabilities					
Assets	27,333	24,155	4,664	–	56,152
Investment in associates					66
Unallocated assets					1,028
Total assets					57,246
Liabilities	4,908	5,582	1,159	–	11,649
Unallocated liabilities					4,866
Total liabilities					16,515
Other information					
Capital expenditure	866	786	174	–	1,826
Depreciation and amortisation	797	617	325	–	1,739
Other non-cash (income) expenses	(1,223)	(17)	1	–	(1,239)

34. Segment information (cont'd)

(b) Analysis by Geographical Segments

Segment turnover is based on the location of customers regardless of where the business is conducted. Segment assets and capital expenditure are based on the geographical location of those assets.

	Turnover		Assets		Capital expenditure	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Singapore	22,436	29,741	24,141	24,548	291	605
Other Asian countries	29,213	28,239	40,741	32,698	2,726	1,221
Europe	10,881	7,856	–	–	–	–
Others	2,962	1,844	–	–	–	–
Total	65,492	67,680	64,882	57,246	3,017	1,826

Financial Statements

123

35. Financial instruments

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign exchange risk. The policies for managing each of these risks are summarised below.

The Group does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk

The Group has cash balances placed with reputable banks and financial institutions.

The Group obtains additional financing through bank borrowings and finance lease arrangements. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Information relating to the Group's interest rate exposure is also disclosed in the notes on the Group's borrowings, including finance lease arrangements.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

(In Singapore dollars)

35. Financial instruments (cont'd)

Credit risk

The carrying amounts of cash and cash equivalents, trade and other receivables, amount due from associates and corporate guarantees granted represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

It is the Group's policy to sell to a diversity of creditworthy customers so as to reduce concentration of credit risk. Therefore, the Group does not expect to incur material credit losses on its risk management or other financial instruments.

Foreign exchange risk

The Group incurs foreign exchange risk on sales, purchases and borrowings that are denominated in a currency other than Singapore dollars. The currencies giving rise to this risk are primarily US dollar, Euro and Japanese Yen.

The Group does not have any formal hedging policy against foreign exchange fluctuations. However, the Group continuously monitor the exchange rates of the major currencies and enter into hedging contracts with banks from time to time whenever the management detect any movements in the respective exchange rates which may impact on the Group's profitability.

Foreign currencies received are kept in foreign currencies accounts and are converted to the respective measurement currencies of the companies on a need-to basis so as to minimise the foreign exchange exposure.

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than a forced or liquidation sale. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

The carrying values of cash and cash equivalents, trade and other receivables and payables, provisions and other liabilities approximate their fair values due to the relatively short-term maturity of these financial instruments.

It is not practicable to determine, with sufficient reliability without incurring excessive costs, the fair value of the amounts due from/to subsidiaries, associates and related companies due to the absence of agreed repayment terms between the parties involved.

35. Financial instruments (cont'd)

Quoted investments

The fair value of quoted investment is estimated based on quoted market price for this investment.

Finance lease obligations

The aggregate net fair values of financial assets and financial liabilities, which are not carried at fair value in the balance sheet, are presented in the following table as of 31 December 2004. The fair values of finance lease obligations and loans are estimated using discounted cash flows analysis, based on current incremental lending rates for similar types of lending and borrowing arrangements.

	Carrying Amount		Estimated fair value	
	2004	2003	2004	2003
	\$	\$	\$	\$
Group				
Financial liability				
Finance lease obligations	757,275	964,130	707,669	953,809
Bank term loans	8,485,973	1,382,238	8,188,475	1,074,881
Company				
Financial liability				
Finance lease obligations	351,165	539,449	331,585	531,904
Bank term loans	7,295,000	–	7,235,000	–

36. Livestock

The main risk arising from the Group's livestock is business risk. The Group has institutionalised a comprehensive health management and quarantine system for all its domestic and overseas operations to ensure a consistently high standard of good health care management and hygiene for its livestock. Currently, all its domestic and overseas fish operations have attained ISO 9002 certification.

37. Authorisation of financial statements

The financial statements of the Company for the year ended 31 December 2004 were authorised for issue in accordance with a directors' resolution dated 12 January 2005.

STATISTICS OF SHAREHOLDERS

as at 28 January 2005

Authorised Share Capital:	S\$20,000,000
Issued and fully Paid-up Capital:	S\$12,821,124
Class of Shares:	Ordinary share of S\$0.10 each
Number of Shares:	128,211,238

Analysis of Shareholders

Range of Shareholdings	No. of Shareholders	%	Shares	%
1 - 999	105	7.33	41,353	0.03
1,000 - 10,000	717	50.03	3,562,750	2.78
10,001 - 1,000,000	594	41.45	30,228,690	23.58
1,000,001 and above	17	1.19	94,378,445	73.61
Total	1,433	100.00	128,211,238	100.00

Substantial Shareholders

Name of Shareholders	Shareholdings registered in the name of the Substantial Shareholders		Shareholdings held by the Substantial Shareholders in the name of nominees		Shareholdings in which the Substantial Shareholders are deemed to be interested**	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
1. Qian Hu Holdings Pte Ltd	10,000,000	7.80	26,320,842	20.53	–	–
2. Yap Ah Seng Alvin*	6,229,872	4.86	–	–	39,600	0.031
3. Yap Ah Siong Andy*	6,229,872	4.86	–	–	178,200	0.139
4. Yap Kim Choon*	6,229,872	4.86	–	–	–	–
5. Yap Kim Lee Kenny*	5,637,126	4.40	–	–	–	–
6. Yap Hock Huat*	5,344,872	4.17	–	–	84,360	0.066
7. Yap Ping Heng*	5,229,872	4.08	–	–	30,000	0.023
8. Yap Kim Chuan*	4,003,870	3.12	2,226,002	1.74	–	–

* Each has a shareholding of 14.04% in Qian Hu Holdings Pte Ltd ("QHHL") except for Yap Kim Lee Kenny whose shareholding in QHHL is 15.76%

** Held by spouse

Top Twenty Shareholders

Name of Shareholders	No. of Shares	%
1. Raffles Nominees Pte Ltd	26,320,842	20.53
2. Qian Hu Holdings Pte Ltd	10,000,000	7.80
3. Yap Ah Seng Alvin	6,229,872	4.86
4. Yap Ah Siong Andy	6,229,872	4.86
5. Yap Kim Choon	6,229,872	4.86
6. Yap Kim Lee Kenny	5,637,126	4.40
7. Yap Hock Huat	5,344,872	4.17
8. Yap Ping Heng	5,229,872	4.08
9. HL Bank Nominees (S) Pte Ltd	4,194,150	3.27
10. Yap Kim Chuan	4,003,870	3.12
11. Hong Leong Finance Nominees Pte Ltd	3,513,453	2.74
12. Yap Hey Cha	3,001,440	2.34
13. Ang Kim Sua	2,155,200	1.68
14. Koh Guat Lee	2,104,001	1.64
15. Goh Siak Ngan	1,992,003	1.55
16. BNP Paribas Nominees Singapore Pte Ltd	1,134,000	0.88
17. Lim Peng Chuan	1,058,000	0.83
18. Ng Wah Hong	830,482	0.65
19. Phillip Securities Pte Ltd	791,520	0.62
20. Lim Boo Hua	658,400	0.51
Total	96,658,847	75.39

Based on the information provided, to the best knowledge of the Directors and the substantial shareholders of the Company, 26.99% of the issued share capital of the Company is held in the hands of the public as at 28 January 2005. Accordingly, Rule 723 of the Singapore Exchange Listing Manual has been compiled with.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixth Annual General Meeting of the Company will be held at No. 71 Jalan Lekar, Singapore 698950 on Friday, 18 March 2005 at 11.00 a.m. to transact the following business: -

ORDINARY BUSINESS

- 1 To receive and adopt the Directors' Report and Audited Accounts for the financial year ended 31 December 2004 and the Auditors' Report thereon. [Resolution 1]
- 2 To re-elect Mr Chang Weng Leong, who is retiring by rotation in accordance with Article 89 of the Company's Articles of Association, as Director of the Company. [Resolution 2]
- 3 To re-elect Mr Lee Teck Leng Robson, who is retiring by rotation in accordance with Article 89 of the Company's Articles of Association, as Director of the Company. [Resolution 3]
- 4 To re-elect Ms Lai Chin Yee, who is retiring in accordance with Article 88 of the Company's Articles of Association, as Director of the Company. [Resolution 4]
- 5 To approve the sum of \$30,000/- as Directors' fees for the financial year ended 31 December 2004. (2003: \$30,000) [Resolution 5]
- 6 To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. [Resolution 6]
- 7 To transact any other business that may be transacted at an Annual General Meeting.

Financial Statements

127

SPECIAL BUSINESS

- 8 To consider and, if thought fit, to pass the following as Ordinary Resolution, with or without modifications: -

Ordinary Resolution: -

General Mandate to authorise the Directors to issue shares or convertible securities

"THAT pursuant to Section 161 of the Companies Act, Cap. 50 and the listing rules of the Singapore Exchange Securities Trading Limited (the "Listing Rules"), authority be and is hereby given to the Directors of the Company to allot and issue: -

- (a) shares; or
- (b) convertible securities; or
- (c) additional securities issued pursuant to Rule 829 of the Listing Rules; or
- (d) shares arising from the conversion of securities in (b) and (c) above,

in the Company (whether by way of rights, bonus or otherwise) at any time to such persons and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that: (i) the aggregate number of shares and convertible securities to be issued pursuant to this resolution must be not more than 50% of the issued share capital of the Company (calculated in accordance with (ii) below), of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders must be not more than 20% of the issued share capital of the Company (calculated in accordance with (ii) below); and (ii) for the purpose of determining the number of shares and convertible securities that may be issued pursuant to (i) above, the percentage of issued share capital shall be calculated based on the Company's issued share capital at the time of the passing of this resolution after adjusting for (a) new shares arising from the conversion or exercise of convertible securities; (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this resolution and (c) any subsequent consolidation or subdivision of shares. Unless revoked or varied by ordinary resolution of the shareholders of the Company in general meeting, this resolution shall remain in force until the earlier of the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note] [Resolution 7]

Notice of Annual General Meeting (cont'd)

By Order of the Board

Lai Chin Yee
Yeoh Kar Choo Sharon
Company Secretaries
Singapore

24 February 2005

Qian Hu 2004

128

Explanatory Note:

The ordinary resolution set out in item 8 above, if passed, will empower the Directors from the date of the Annual General Meeting until the date of the next Annual General Meeting of the Company, to issue shares and convertible securities in the Company up to an aggregate number not exceeding 50% of the issued share capital of the Company, of which the aggregate number issued other than on a pro rata basis to all existing shareholders of the Company shall not exceed 20% of the issued share capital of the Company, as more particularly set out in the resolution.

Notes:

A member entitled to attend and vote at the Annual General Meeting may appoint not more than two proxies to attend and vote on his behalf and such proxy need not be a member of the Company. Where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at No. 71 Jalan Lekar Singapore 698950 not later than 48 hours before the time set for the Annual General Meeting.

PROXY FORM

QIAN HU CORPORATION LIMITED
 (Incorporated in the Republic of Singapore)
 (Company Registration No. 199806124N)

IMPORTANT

1. For investors who have used their CPF monies to buy Qian Hu Corporation Limited's shares, the Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This proxy is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We _____ NRIC/Passport/Co. Registration No. _____
 of _____

being a member/members of QIAN HU CORPORATION LIMITED hereby appoint

Name	Address	NRIC/Passport No.	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport No.	Proportion of Shareholdings (%)

as my/our proxy to vote for me/us and on my/our behalf and, if necessary to demand a poll, at the Annual General Meeting ("AGM") of the Company to be held at No. 71 Jalan Lekar Singapore 698950 on Friday, 18 March 2005 at 11.00 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific directions as to voting are given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the AGM. If no person is named in the above boxes, the Chairman of the AGM shall be my/our proxy to vote, for or against the Resolutions to be proposed at the AGM as indicated hereunder for me/us and on my/our behalf at the AGM and at any adjournment thereof.

No.	Resolutions Relating To:	For*	Against*
AS ORDINARY BUSINESS			
1	Directors' Report and Audited Accounts for the financial year ended 31 December 2004		
2	Re-election of Mr Chang Weng Leong as director		
3	Re-election of Mr Lee Teck Leng Robson as director		
4	Re-election of Ms Lai Chin Yee as director		
5	Approval of directors' fees		
6	Re-appointment of Ernst & Young as auditors		
AS SPECIAL BUSINESS			
7	Authority to allot and issue new shares		

* Please indicate your vote "For" or "Against" with a "X" within the box provided.

Dated this _____ day of _____ 2005

Total Number of Shares Held

 Signature(s) of Member(s) or
 Common Seal of Corporate Member

IMPORTANT: PLEASE READ NOTES OVERLEAF

Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50), you should insert that number. If you have shares registered in your name in the Register of Members of the Company, you should insert that number. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.
2. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on his behalf and such proxy need not be a member of the Company. Where a member appoints two proxies, he shall specify the proportion of his shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.
3. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at No. 71 Jalan Lekar, Singapore 698950 not less than 48 hours before the time set for the Annual General Meeting.
4. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or signed on its behalf by an attorney duly authorised in writing or by an authorised officer of the corporation.
5. Where an instrument appointing a proxy or proxies is signed on behalf of the appointer by an attorney, the letter or the power of attorney (or other authority) or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
6. A corporation which is a member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at the Annual General Meeting.
7. The Company shall be entitled to reject this instrument of proxy if it is incomplete, improperly completed, illegible or where the true intentions of the appointer are not ascertainable from the instructions of the appointer specified in this instrument of proxy. In addition, in the case of members whose shares are entered in the Depository Register, the Company may reject an instrument of proxy lodged if the member, being the appointer, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time set for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.



Equal Brand Design
August Consulting

Qian Hu Corporation Limited
No. 71 Jalan Lekar, Singapore 698950
Tel (65) 6766 7087 Fax (65) 6766 3995
www.qianhu.com





24 February 2005

Dear Shareholders

We realise that you may not be able to attend our forthcoming Annual General Meeting ("AGM") for some reason or other. As in the previous year, we have set up several channels to communicate with our investors and shareholders. All because we deeply value your feedback and input.

You now may channel your questions and feedback to us via the following methods:

- Through our online feedback at our website, www.qianhu.com
 - At our homepage, please click on 'Qian Hu Feedback'
 - Follow the instructions and click 'Submit' when you have completed the online form
- By calling our automated hotline number 6511 1086
 - Dial 6511 1086
 - Choose your language options
 - Press 1 for 'Feedback'
- By sending us an email through investor@qianhu.com
- By faxing us your feedback through 6766 3995

We will look into all of your feedback questions and answer them during the AGM, provided they reach us before 18 March 2005. A copy of the minutes of the AGM will be posted on our website and via SGXNET.

Yours faithfully

Kenny Yap Kim Lee
Executive Chairman and Managing Director
Qian Hu Corporation Limited

To facilitate your attendance at our Annual General Meeting (AGM) and Extraordinary General Meeting (EGM) on **18 March 2005, at No. 71 Jalan Lekar Singapore 698950 at 11am**, transport arrangements have been made available for you.

We have chartered a bus to ferry you from the **Choa Chu Kang MRT Station** to our meeting venue. The bus will leave at **10:40am sharp**.

Please proceed to the **Taxi Stand** in front of the **Choa Chu Kang MRT Station**. Kindly refer to the location map.

Transportation will also be provided back to the Choa Chu Kang MRT Station after the meeting.

