OUR VALUE ECOSYSTEM

qian hu corporation limited annual report 2005

ABOUT QIAN HU

Incorporated in 1998, Mainboard-listed Qian Hu Corporation Limited is an integrated ornamental fish service provider – providing a spectrum of services involving distribution of well over 1,000 species and varieties of ornamental fish from all around the world as well as the manufacturing and distribution of a wide range of aquarium accessories, including pet foods and medications.

OUR VALUE ECOSYSTEM

The freshwater aquarium, a balanced ecosystem that is ever so fragile, has to be continually maintained in order to keep ornamental fish happy and healthy. The water has to be continually aerated and purified with special pumps and accessories, as well as aquatic plants, which, besides providing the aesthetics, also reinforces as aquatic lungs and filters. Natural and artificial light in turn nourishes the plants.

Qian Hu, has in recent months, sought to develop an integrated, value-based business ecosystem. It did this by integrating its core business of distributing ornamental fish and breeding Dragon Fish with backend manufacturing of aquarium accessories and pet foods, whilst developing a retail concept that seeks to own its front-end customers. With the complete value and supply chain in hand, Qian Hu has taken a giant leap towards becoming a world-class ornamental fish and pet services provider in Asia and the rest of the world.

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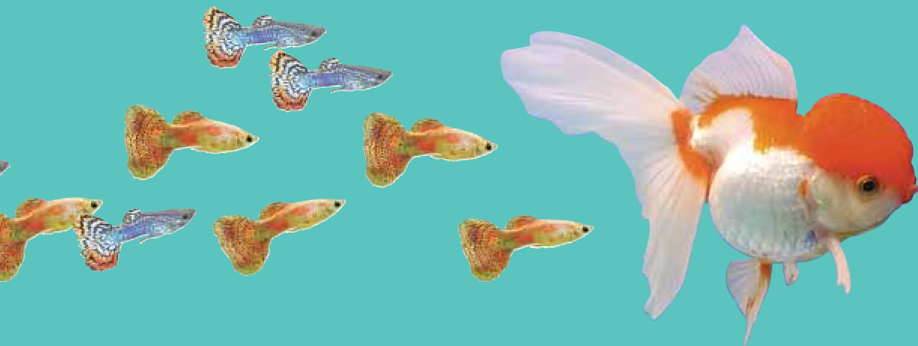

OUR VALUE ECOSYSTEM

AT A GLANCE, THE FRESHWATER AQUARIUM PROVIDES COLOUR, LIFE AND MOVEMENT TO ANY SPACE WITHIN A HOME OR OFFICE. TO MANY, PARTICULARLY IN ASIA, THE AQUARIUM IS ALSO A VITAL *FENG SHUI* ACCESSORY THAT NOT ONLY BRINGS A BALANCE OF *CHI*, BUT ALSO A POINT OF INTEREST TO ANY BLAND SPACE.

For us at Qian Hu, the aquarium represents a balanced ecosystem – not only in natural, aquatic terms, but to business as well. It represents everything that we believe our entire business is built on.

Over the years, Qian Hu has thrived on external demand for our ornamental fish – we now export 1,000 varieties and species to more than 60 countries around the world. This demand has made it necessary for us to capture the value chain of not only distributing fish, but to embark on complementary activities such as manufacturing and supply of aquarium and pet accessories, and producing plastic bags. Importantly, we made the ecosystem more complete by setting up a network of retail chain stores in the region to enable us to own the front-end customers as well.

Once there is a market, there needs to be the environment of water, which represents the business conditions. The water environment has to be continually aerated and purified with special pumps and accessories. Aquatic plants, besides providing the aesthetics quotient of the underwater environment, reinforces as aquatic lungs and filters. Natural and artificial light in turn nourishes the plants.

Qian Hu, has in recent months, sought to develop an integrated, value-based business ecosystem. It did this by integrating its core business of distributing ornamental fish and breeding Dragon Fish with backend manufacturing of aquarium accessories and pet foods, whilst developing a retail concept that seeks to own front-end customers. Indeed, Qian Hu has taken a big stride towards becoming a world-class ornamental fish and pet services provider in Asia.

Our Business Model

Qian Hu's business model has been, and will always be, exportable, expandable and scalable. With our humble beginnings as a breeder of guppies, Qian Hu has, over the years, become an integrated ornamental fish service provider.

Qian Hu is differentiated from the rest of the competition in terms of our integrated services, distribution network, manufacturing capabilities, and most importantly, our commitment to excellence, innovative and superlative service culture throughout the Group.

DISTRIBUTION & EXPORT

- of more than 1,000 species and varieties of ornamental fish all over the world, placing Singapore on the world map as the top exporter for a number of years

BREEDING

- of Dragon Fish

MANUFACTURING & WHOLESALE

- of aquarium and pet accessories and foods

RETAIL

- of a wide range of ornamental fish, aquarium & pet accessories, pet foods, fish food and medicines under the "Qian Hu - The Pet Family" brand of chain store which integrates all of our core activities plus added-value services such as pet grooming services in selected stores and cities.

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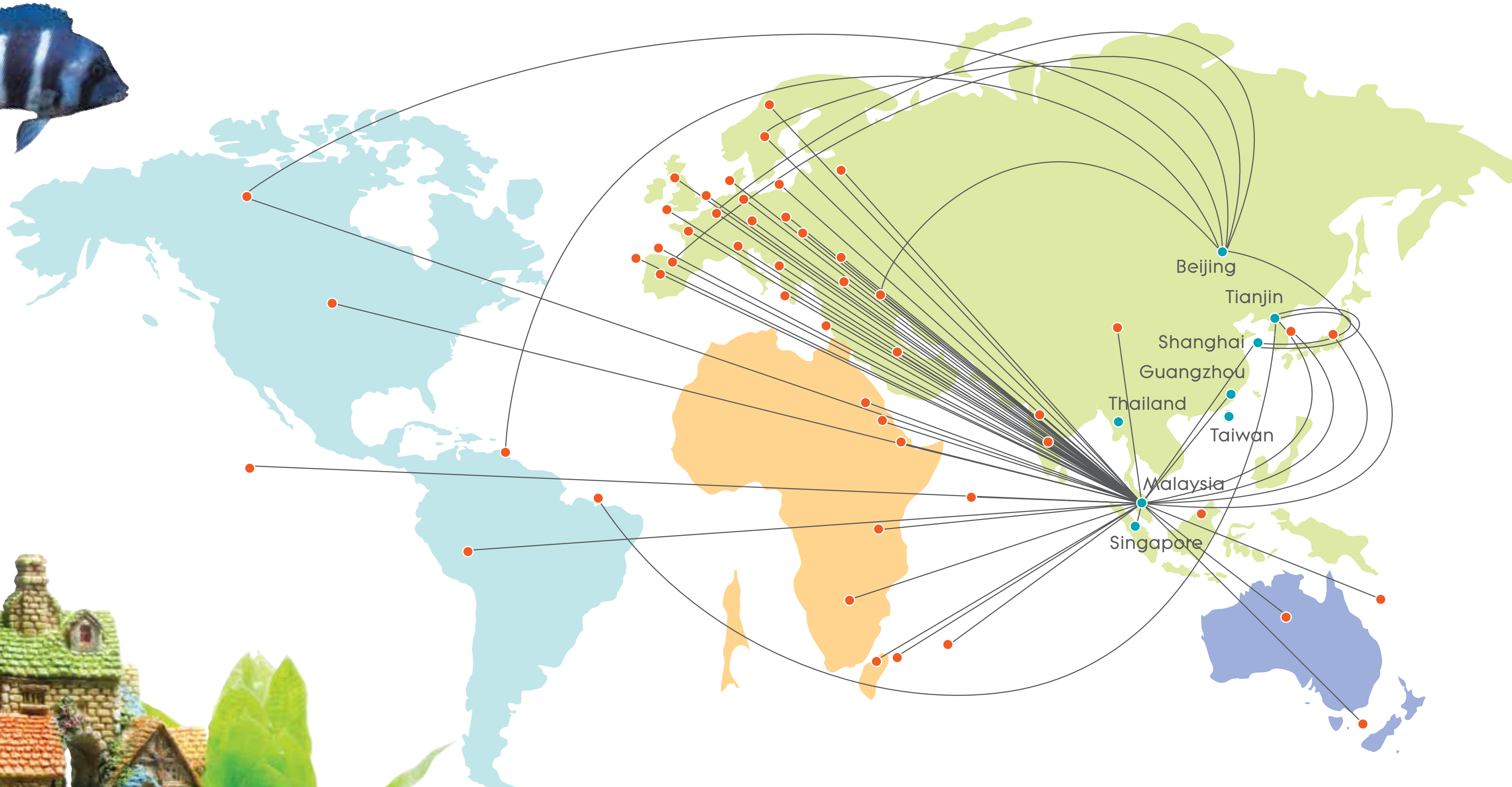


ORNAMENTAL FISH EXPORT

Singapore is the top exporter of ornamental fish in the world, with a 30% share in the world market – some 72 countries around the world with major markets in North America, Europe and Japan.

Singapore's standing as the leading supplier of ornamental fish, remains, as it has been since the 1950s, at the very top of the list. Even in the face of economic downturns and growing competition from other countries such as Malaysia, the Czech Republic and Sri Lanka, Singapore has managed to increase its export of ornamental fish by more than 5% to $90.1 million in 2005.

Not only is it reputed as the "Ornamental Fish Capital of the World", Singapore is also renowned for its "One-Stop-Shop" services catering to the global ornamental fish industry. Exporters deal with 1,000 varieties and species of ornamental fish, buying from the local farms, which account for about 40% of the sales, as well as from farms in the region and elsewhere for re-exporting.

There are currently 63 ornamental fish farms occupying 138 hectares in the Agrotechnology Parks producing mainly guppy and other Poecilids, discus, goldfish, Tetra, and Dragon Fish.

However, Qian Hu is the only ornamental fish company in the world to be able to export fish from 4 countries in Asia – Singapore, Malaysia, Thailand and China. We aim to become the world's top exporter in time to come.

Contrary to popular belief, ornamental fish handling is actually a knowledge-based activity, requiring years of experience to handle the intricacies of more than 1,000 species and varieties of fish imported from Southeast Asia, South America and Africa regarding environmental conditioning, proper nutrition, quarantine and medication. Even the seemingly-simple process of preparing the fish for export is very precise. Little is known that fish have to undergo stringent pre-flight conditioning process to prepare them for the long journey around the world. This entails regulating the water quality, dieting, waste reduction techniques, space acclimatisation and temperature control. This process helps to ensure that they arrive at their destination healthy. In fact, we have the reputation of being able to consistently achieve a high rate of survivability of our fish.

Every week, thousands of bags of fish, which are packed in pathogen and contaminant-free water and infused oxygen, go through our bar code scanners before they are flown to more than 60 countries around the globe.

DRAGON FISH BREEDING CAPABILITIES

This endangered species, the highly-prized Asian Arowana (Scleropages formosus) is currently being researched by Qian Hu, in collaboration with Temasek Life Sciences Laboratory (TLL).

Up till recently, breeders believed that Arowanas bred most frequently during monsoon seasons. By having quantitative and qualitative information about the mating behaviour of these fish, we can then effectively increase the production of Dragon Fish in our farms in Singapore, Malaysia and Indonesia in order to keep up with rising market demands, fuelled mainly by China and Taiwan.

One of the limiting factors in breeding Arowanas is in the difficulty of determining the gender of the brooders. The research project will enable us to enter into selective breeding so that only the best traits of the Arowana can be reproduced in future generations. By collecting a small biological sample from the brooders, DNA data is obtained, and tagged to the individual brooder's microchip number. Commercial breeders can use this information to better their chances at reproducing the highest possible numbers of Arowana.

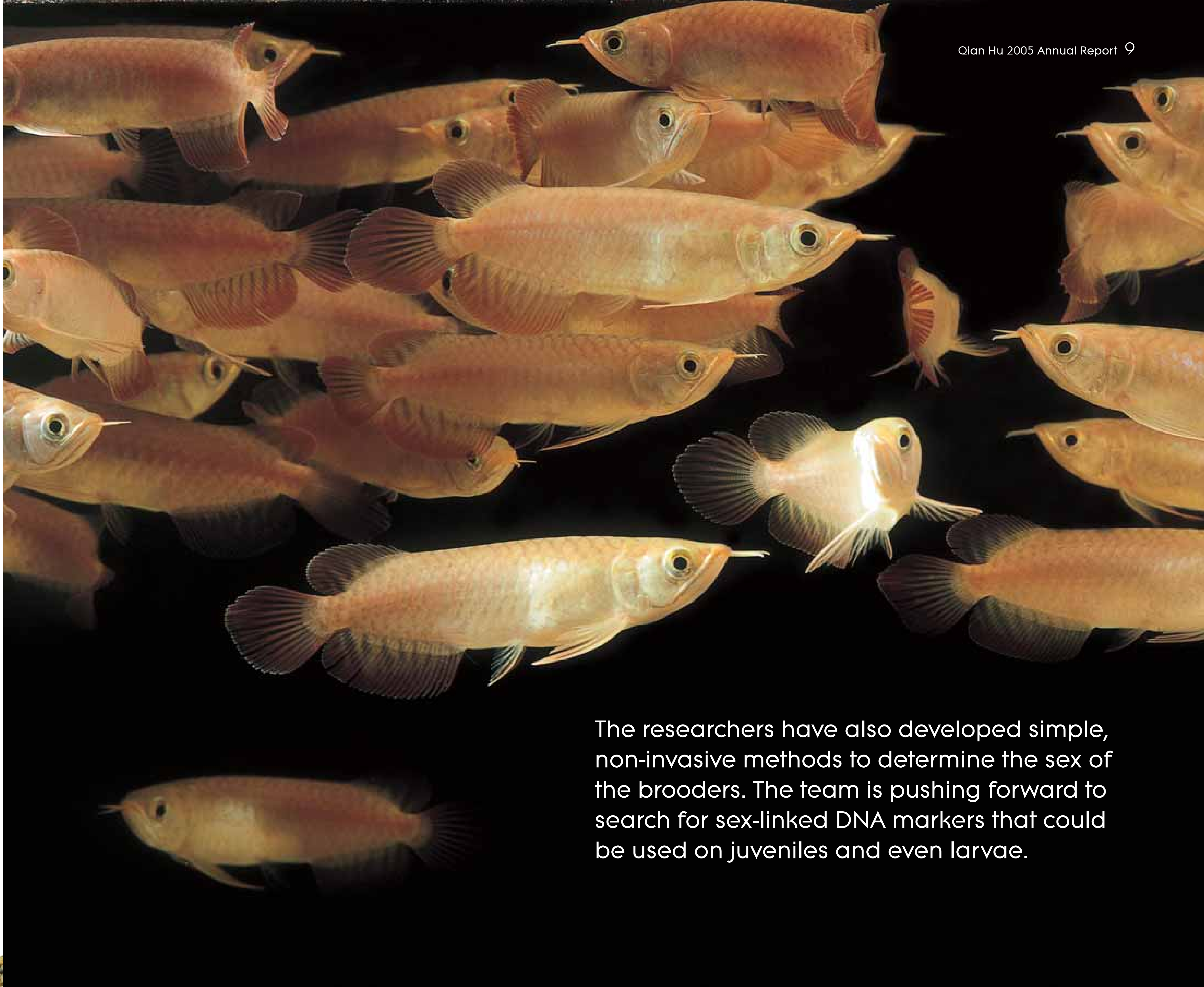
Research Updates

To date, Qian Hu's research collaboration with TLL has yielded excellent results. The research team completed the genotyping of all the brooders of Qian Hu by polymorphic DNA markers and have set up an efficient method to identify breeding pairs.

For the first time in the history of Arowana breeding, offspring collected from the mouth of brooders can now be assigned to both of their parents, opening the way to pedigrees based on pair-wise breeding.

The researchers have also developed simple, non-invasive methods to determine the sex of the brooders. The team is pushing forward to search for sex-linked DNA markers that could be used on juveniles and even larvae.

The completion of the first phase will allow Qian Hu to assign genetic barcodes to all the brooders and all the dragon fish that is produced by the farm. The research team is now embarking on the second phase of the project, and hopes to use this cutting-edge research to produce high quality lineage of Dragon Fish as well as improve yields for the breeders.



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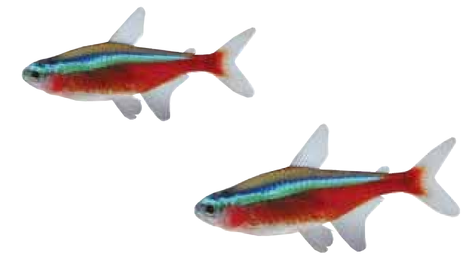


MANUFACTURING STRENGTHS

Guangdong Province is the main production base for aquarium products in China and occupies a domestic market share of over 70%.[1] As a direct result of an expanding domestic market and increasing overseas demand, manufacturers of Chinese aquarium products in Guangdong, the main trading base for the whole of China, keeps on growing. Currently there are about 50 manufacturers in Guangdong Province, including three of China's largest aquarium producers.

Leveraging on the importance of Guangzhou as the trading hub of China's whole aquarium products, our Group established our sole manufacturing base in the vibrant city of Guangzhou through a wholly-owned subsidiary, Guangzhou Qian Hu. In 2004, Guangzhou Qian Hu's production capacity was more than doubled, and in time to come, we aim to be one of the top 3 manufacturers of aquarium accessories in China.

Located in Guangzhou's Dong An Industrial Park, our medium-sized factory has a gross floor area of 15,000 square metres, and has the capacity to produce a wide variety of aquarium accessories such as PUA tanks, cabinets, lightings, airpumps, as well as fish medication and food under Qian Hu's proprietary brands. In addition, the Company also serves as a contract manufacturer and distribution agent for third-party brands such as EHEIM and Arcadia.

Innovation is a critical success factor, and Guangzhou Qian Hu is currently developing new products such as the customisation of the fish tank specifically tailor-made for the Asian Arowana or Dragon Fish which will be able to enhance the colour of the prized fish as well as revolutionary safety features such as emergency power generators.

We have developed a tank specially for keeping reptiles, which are gaining popularity as household pets in Europe and North America, as well as a waterproof lighting system for aquariums that comply with European quality standards.

Guangzhou Qian Hu is focused on the export market – some 90% of our sales are from overseas with only 10% of domestic sales. Of the export markets, about half are sold to the Qian Hu group, and the remaining to principal export markets such as Japan, Europe, Australia and Southeast Asia.

Going forward, our strategy is to expand the product offerings for our OEM customers, as well as to develop new and innovative products especially for the European and American markets. We aim to grow our services to OEM customers, and be a significant player in the global aquarium accessories industry.

[1] "Aquarium product manufacturers in Guangdong – China", Lai Mingfan, Pets International Magazine Vol 17 No 2 (March 2005)

RETAIL CHAIN STORES

In 2004, we embarked on an aggressive expansion of our The Pet Family retail chain store strategy which, today, we have set up 12 chain stores in Malaysia, Thailand and China. We believe that this forward integration will enhance our growth and profitability of our core businesses in the medium to long term. Our retail stores sell both ornamental fish and related aquarium and pet accessories with selected stores offering pet grooming activities as well.

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, just to name a few.

In addition, the Group has developed its own brands of aquarium and pet accessories under the name "Ocean Free", "Delikate", "BARK" and "ARISTO-CATS YI HU".

CHAIRMAN'S MESSAGE

Our efforts to reduce inventory to generate more cash in FY2005 resulted in a net operating cash flow of $6.7 million as at 31 December 2005, compared to a negative operating cash flow of $3.1 million in the year-ago period.

My dear shareholders

The theme for this year's annual report, "Our Value Ecosystem", illustrates the completeness of our business model – incorporating the breeding and export of ornamental fish including the highly-profitable Dragon Fish; the manufacturing and distribution of aquarium and pet accessories, and the ownership of our customers through our front-end retail chain stores.

All of these business segments are highly complementary, and function in symbiotic relationships with one another in the global market space, being represented by the water in the fish tank. Indeed, Qian Hu is finding its place in this balanced business ecosystem.

I am happy to report Qian Hu has done better in FY2005 as we managed to report incremental growth in turnover and profit every quarter. After initiating the experimentation with our retail chain store strategy in 2004, the Group went through a phase of consolidation and transformation in 2005, constantly reducing our inventory to generate more cash thus reducing our gearing.

This resulted in the Group generating a net operating cash flow of $6.7 million as at 31 December 2005, compared to a negative operating cash flow of $3.1 million in the year-ago period. Our debt-to-equity ratio also reduced from 0.60 to 0.56.

FY2005 Highlights

The Group's net profit attributable to shareholders surged 24.8% to $2.0 million on the back of a 1.2% rise in turnover to $66.3 million, boosted by better margins yielded from our self-bred Dragon Fish sales.

The increased efficiency of our accessories manufacturing plant in Guangzhou also contributed a significant increase in the operating profit of accesories business by 99.3% to $572,000.

In the latest 4th quarter alone, Qian Hu's net profit gained substantially by 267.1% to $536,000 on a 17.9% growth in turnover to $18.3 million compared to the same quarter a year ago, led by an all-round improvement amongst the Group's core businesses.

Based on the Group's latest audited full-year results, earnings per share on a fully diluted basis increased from 1.27 Singapore cents to 1.58 cents, while net assets backing per share rose from 33.06 cents to 35.46 cents.

Dividend

As Qian Hu has done relatively better this year, the Directors have recommended a first and final gross dividend of 0.5 cents per ordinary share, which if approved by shareholders, will be paid on 3 April 2006.

亲爱的股东们：

今年常年报告的主题是："我们有价值的生态系统"。这个主题概述了我们完整的商业模式——结合饲养与出口观赏鱼，包括高利润的龙鱼；制造与分销水族器材和宠物配件，以及通过我们的终端零售连锁店的经营，拥有我们的顾客群。

所有的这些商业环节都高度互补，并且在环球市场空间（以鱼缸里的水来象征），彼此有着共生关系的作用。实际上，仟湖在这个商业生态平衡中，寻找我们的定位

我很高兴的报告，仟湖在2005财政年表现得更好，我们的销售额递增，每一季都取得盈利。在2004年，我们采取策略进行试验性开拓零售连锁店的业务，集团在2005年经历了巩固与转型的阶段，持续减少存货以增加现金，也降低了我们的负债率。

因此，这使集团截至2005年12月31日的净营业现金流量达670万元，与一年前的净营业现金流量负310万元相比，改善许多。我们的资本负债率也从0.60 降低至 0.56。

2005 财务概要

集团的净利上升24.8% 至200万元，这是由于我们自己繁殖的龙鱼销售取得更好的利润收益，将销售额提升1.2%至6630万元的原故。

我们在广州的器材生产效率提高，也促使器材的营业利润显著提高了99.3%达57万2千元。

单在最新的第4季，仟湖的净利大幅度激升267.1%至53万6千元，销售额上升17.9%至1830万元，与一年前同一季比较，集团的各个核心业务取得全面的增长。

根据集团最新经审核的全年业绩，仟湖的每股盈利从1.27分提高至 1.58分，每股净有形资产值则从33.06分上升至35.46分。

分红

仟湖今年的业绩表现稍胜过往年，董事部建议派发每股0.5分的一次过年终股息，若获得股东批准，将在2006年4月3日派发。

Segmental Review & Prospects

The Ornamental Fish Business

Qian Hu is the only ornamental fish company in the world that supplies ornamental fish from four countries, namely Singapore, Malaysia, Thailand and China.

It would seem that the worst is over for the ornamental fish business as the competition in the wholesale fish distribution business has levelled off. In FY2005, sales of ornamental fish grew 7.3% to $33.5 million, accounting for 50.5% of the Group's total turnover. In the 4th quarter of FY2005 alone, this business segment grew 18.0% to $8.7 million led by Dragon Fish sales which continued to dominate the growth in ornamental fish turnover, as well as increase ornamental fish exports to more customers and countries around the world from the Group's distribution hubs in Singapore and Thailand.

Full-year operating profit from ornamental fish grew marginally by 3.0% to $4.4 million, whilst operating profit in the latest 4th quarter grew substantially by 146.5% to $1.8 million in line with higher sales and better margins from Dragon Fish sales.

Going forward, Qian Hu will continue to grow its ornamental fish business as it seeks to export more fish to more customers and countries all over the world, and expand its domestic distribution network in Singapore, Malaysia, Thailand and China.

Our research collaboration with Temasek Life Sciences Laboratory continues to increase our knowledge of this prehistoric fish through careful study of its breeding behaviour. Together with our years of breeding experience and increased capacity at our Batu Pahat farm in Malaysia, we are committed to take the productivity levels of our Dragon Fish breeding to new levels so as to meet the rising demands from our high-growth markets of China, Japan and Taiwan.

We already have a very wide export network -- comprising more than 60 countries globally. As China is an increasingly important single market for Qian Hu, we plan to continuously increase our existing pool of 50 appointed agents throughout China .

The Accessories Business

In FY2005, sales of aquarium and pet accessories declined marginally by 6.1% to $25.6 million, accounting for 38.7% of the Group's total turnover. However, in the latest 4th quarter, accessories sales leapt 21.9% to $7.8 million as a result of increasing demand from overseas markets as well as more orders received by our Guangzhou factory.

Our full year operating profit from its accessories business nearly doubled to $572,000. However, in the latest 4th quarter, this business segment registered a loss of $289,000 as our Guangzhou factory's improved operational efficiency had helped to increase profitability whilst offsetting the lower yields generated from the reduction of inventory through a series of marketing promotions.

During the year in review, the Group had increased the production capacity of its Guangzhou factory which produces aquarium accessories. Increasing demand from Qian Hu's network in Singapore, Malaysia, Thailand and China, coupled with new OEM customers from other parts of the world, will enable our Guangzhou subsidiary to further improve its turnover and profit in FY2006.

各部门业务回顾与展望

观赏鱼

仟湖是世界上唯一一家观赏鱼公司供应来自4个国家的观赏鱼，这4个国家是新加坡、马来西亚、泰国和中国。

按目前的局势来看，观赏鱼业务的最糟情况已成为过去，批发的业务已稳定下来。在2005财政年，观赏鱼的销售增加7.3%至3350万元，占集团总销售额的50.5%。单在2005财政年第4季，这个部门的业务就增加了18.0%至870万元，主要业务增长仍是来自龙鱼的销售，以及观赏鱼出口从新加坡和泰国这两个批发中心出口到更多的国家与更多的顾客。

全年来自观赏鱼的营业利润稍微增长了3.0%至440万元。在最新的第4季，营业利润大幅增长了146.5%至180万元，这与龙鱼取得更高的销售量与利润一致。

迈步向前，仟湖将继续拓展观赏鱼方面的业务，它将致力于出口更多观赏鱼到世界各地，并将扩展在新加坡、马来西亚、泰国和中国的国内分销网络。

我们同淡马锡生命科学实验室（Temasek Life Sciences Laboratory）继续进行的研究合作，通过谨慎的研究，将提高我们对史前鱼类饲养的习性的知识，加上我们多年来的饲养经验，以及我们提高在马来西亚巴株巴辖的鱼场产量，我们决心提升我们饲养的龙鱼产量，以便满足中国、日本与台湾这些高增长市场的需求。

我们已有一个相当宽广的出口网络——这个网络包括了全球超过60个国家。中国是仟湖一个日益重要的市场，如今我们在中国全国各地已有50个指定代理，我们计划持续增加代理的数目。

器材

在2005财政年，水族器材和宠物配件的销售稍微下滑6.1%至2560万元，占集团总营业额的38.7%。然而，单单在最新的第4季，由于海外市场需求与我们在广州的工厂接到的订单增加，器材的销售猛升了21.9%至780万元。

2005年全年来自器材的业务的营业利润获得近双倍的增长，达到57万2千元。在最新的第4季，虽然我们因广州工厂的生产效率提高，而增加了利润，但整体利润却因一系列为了减少存货而展开的市场促销而受影响，使这一部门亏损了28万9千元。

在回顾这一年的业绩表现时，集团提高了生产水族器材的广州工厂之的生产量。来自新加坡、马来西亚、泰国和中国的仟湖网络，以及世界各地新的OEM顾客的需求增加，将使广州分公司进一步改善营业额，可在2006财政年取得更好的销售量与盈利。

The Retail Chain Store Business

As of 31 December 2005, the Group has a total of 12 chain stores in Malaysia, Thailand and China. In 2006, Qian Hu expects to set up more chain stores, especially in Malaysia.

The process of professionalizing a highly-fragmented retail market by setting up retail chain stores offering better services and a wider product range within a visually-stimulating shopping environment, will take a longer gestation period to conclude results. However, we feel that this is an extremely essential initiative in order to enhance our market position and secure future growth potential.

Business is about taking calculated risks, about the necessary steps we have to take now in order to ensure higher levels of growth in the future. I liken it to the pruning of a tree. Let's say you have a beautiful fruit tree that is bearing good fruits. In order for the tree to grow into an even bigger and more productive tree, we would need to prune it by cutting off leaves and branches. We can spare it from this painful process, but five years down the road, it will begin to lose its productivity and beauty. However, if we prune it now, then in a few years time, it will turn out to be an even bigger tree, bearing bigger and better fruits.

We have every reason to believe, however, that we have made the right decision to expand into the retail chain store business in spite of the many criticisms about us venturing into a business that we are not familiar with.

However, we feel that we needed to do this in order to secure our future. I am convinced that business is for the long term and if we have to do the right things, we will not hesitate to endure short term pain and do the right thing - to transform and consolidate our business model.

Group Prospects for FY2006

In view of our continuous experimentation with the retail chain store business, and the gestation period required for it to be profitable, we expect possible fluctuations in our operating profit from quarter to quarter in FY2006. However, the Group will remain profitable.

Appreciation

It leaves me now to thank all of our staff, for being so supportive and cooperative during this painful but necessary pruning process, and to our shareholders for allowing us time to build a stronger, more integrated business model in preparation for a higher momentum of growth.

To my fellow Directors on the Board – thanks for being such great team players and standing by me as we take Qian Hu to great heights.

Have a fantastic year ahead!

Kenny Yap "The Fish"
EXECUTIVE CHAIRMAN AND MANAGING DIRECTOR

连锁店

截至2005年12月31日，集团在马来西亚、泰国和中国，总共开设了12家连锁店。在2006年，仟湖准备开设更多的连锁店，特别是在马来西亚。

要将一个高度零散的零售市场专业化，设立零售连锁店提供更好的服务，以及更广更多的产品，需要更长的时间，才能见到投资成果。我们认为这是非常重要的过程，它将加强我们的市场地位，确保我们未来的潜在成长。

做生意在于进行已计算的风险，在于现在采取必须进行的每一步骤，以确保未来有更大的成长。我将它比喻为修剪一棵树。好比说，我们有一棵已结出果子的果树，为了使这棵果树长成一棵能结更多果子的大树，我们就必须修剪其叶子与树枝。当然，我们也可以不让它经历“被剪”的痛苦，但五年后，它必将丧失其原有的生命力。然而，如果我们现在就修剪它，那么几年以后，它将成长为一棵更大的树、一棵能结更丰实的果子的大树。

我们有许多理由相信我们作出正确的决定——虽然外界有许多批评，指责我们进入一个我们并不熟悉的业务。

然而，我们感觉到我们必须这么做，才能保障我们的未来。我确信，生意是要做长远的，当我们知道自己是在做对的事，就会义无反顾的忍受短期的痛苦，做对的事，转型并巩固我们的商业模式。

集团2006财政年的展望

鉴于我们将继续进行试验性的零售连锁店业务，而这需要一段时间的发展才能见到成果，我们预料在2006财政年，每个季度间的营业利润将可能出现波动，但总的来说，集团将继续保持盈利。

致谢

我要感谢仟湖全体职员，在这个艰难但有必要进行改革的过程中，所给予的支持与合作，并感谢股东们给予我们时间建立一个更强、整合得更好的商业模式，以使取得更长远的增长。

我也要感谢董事部的其他成员支持我，与我一起努力，一起带领仟湖迈向高峰。

愿迈向更美好的一年！

叶金利
执行主席兼总裁

BOARD OF DIRECTORS

KENNY YAP KIM LEE

Executive Chairman and Managing Director

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

Through his leadership, vision and passion for the industry, Kenny plays a key role in establishing Singapore as the ornamental fish capital of the world, with Qian Hu accounting for more than 4% of the global fish market. He has a string of awards to his name - 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).

ALVIN YAP AH SENG

Deputy Managing Director

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

Alvin holds a diploma in Mechanical Engineering from Singapore Polytechnic and was the managing partner for Yi Hu Fish Farm Trading from 1988 to 1998. 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.

1 ROBSON LEE TECK LENG
2 TAN TOW EE
3 ALVIN YAP AH SENG
4 KENNY YAP KIM LEE
5 ANDY YAP AH SIONG
6 CHANG WENG LEONG
7 LAI CHIN YEE

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.

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.

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 in 2000, Ms Lai was an auditor with international accounting firms since 1987. She holds a Bachelor's degree in Accountancy from the National University of Singapore and is a fellow of the Institute of Certified Public Accountants of Singapore.

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 Lead Auditor with the Institute of Quality Assurance (IRCA UK) and an Evaluator appointed by the Singapore Accreditation Council.

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 October 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 Hwa Chong Institution and Hwa Chong International School as well as a trustee of the land on which the two schools 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.

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
2 YAP KIM CHOON
3 GOH SIAK NGAN
4 THOMAS NG WAH HONG
5 JIMMY TAN BOON KIM
6 LEE KIM HWAT
7 BOB GOH NGIAN BOON
8 VIRAVAT VALAISATHIEN

1 LOW ENG HUA

Group General Manager/
Managing Director - China Operations

Mr Low joined the Group in 2001 and is responsible for overall management and business development of the Group. He also take charge of the Group's operations in China. Prior to joining the Group, Mr Low worked in Engage Electronics (S) Pte Ltd from 1993 to 2001 where he rose through the ranks from Application Engineer to Deputy Operations Manager. Mr Low 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 GOH SIAK NGAN

Managing Director
Kim Kang Aquaculture Sdn Bhd
Qian Hu The Pet Family (KK) 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.

4 THOMAS NG WAH HONG

Managing Director

Qian Hu Aquarium and Pets (M) Sdn Bhd
Qian Hu The Pet Family (M) Sdn Bhd

Mr Ng is responsible for the overall business development of Qian Hu Malaysia. Prior to joining Qian Hu 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.

5 JIMMY TAN BOON KIM

Managing Director

Thai Qian Hu Company Limited
Qian Hu Marketing Co Ltd

Prior to his current appointment in 2002, Mr Tan was the head of Daudo division overseeing the import, 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.

6 LEE KIM HWAT

Managing Director

Qian Hu Tat Leng Plastic Ptd Ltd

Mr Lee has been overseeing and managing the operations and business development of Qian Hu Tat Leng for more than 12 years, and is responsible for the growth of our plastics business in Singapore.

7 BOB GOH NGIAN BOON

General Manager

Guangzhou Qian Hu Aquarium and Pets Accessories Manufacturing Co Ltd

Mr Goh joined the Group in 2001 as the Sales and Marketing Manager in charge of Mass Market and Pet Products. He was appointed General Manager of our Guangzhou operations in 2005 and handles the day-to-day operations and overseas the business activities and system implementation in Guangzhou. 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.

8 VIRAVAT VALAISATHIEN

General Manager

Thai Qian Hu Company Limted

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.

CORPORATE INFORMATION

Board of Directors

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

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

Company Secretaries

Lai Chin Yee
Yeoh Kar Choo Sharon

Share Registrar

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

Auditors

Ernst and Young
Certified Public Accountants
10 Collyer Quay
#21-01 Ocean Building
Singapore 049315
Partner-in-charge: Max Loh Khum Whai
(with effect from financial year ended 31 December 2005)

Principal Bankers

The Development Bank of Singapore Ltd

Oversea-Chinese Banking Corporation Limited

HongKong & Shanghai Banking Corporation Limited

Malayan Banking Berhard

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)

Guangzhou Qian Hu Aquarium and Pets Accessories Manufacturing Co., Ltd (China)

74%

Qian Hu Marketing Co Ltd (Thailand)

65%

Kim Kang Aquaculture Sdn Bhd (Malaysia)

Qian Hu The Pet Family (KK) Sdn Bhd (Malaysia)

60%

Thai Qian Hu Company Limited (Thailand)

49%

NNTL (Thailand) Limited (Thailand)

(The Group has voting control at general meetings and Board meetings)

Associate

50%

Jin Jien Hsing Enterprises Co Ltd (Taiwan)

FINANCIAL CALENDAR

2005

12 Jan Annoucement of full year results for financial year 2004 with media & analysts briefing

24 Feb Despatch of Annual Report 2004

18 Mar Annual General Meeting (AGM)

25 Apr Annoucement of first quarter results for financial year 2005

19 Jul Announcement of first half results for financial year 2005 with media & analysts briefing

24 Oct Annoucement of third quarter results for financial year 2005

2006

12 Jan Annoucement of full year results for financial year 2005 with media & analysts briefing

22 Feb Despatch of Annual Report 2005

10 Mar Annual General Meeting (AGM)

3 Apr Payment of final dividends declared for 2005 (subject to shareholders' approval at AGM)

Apr Annoucement of first quarter results for financial year 2006

Jul Announcement of first half results for financial year 2006 with media & analysts briefing

Oct Annoucement of third quarter results for financial year 2006

VALUE ADDED STATEMENT

($'000)	2005	2004
Revenue earned	66,267	65,492
less: Purchase of goods	(49,826)	(49,839)
Gross value added from operations	**16,441**	**15,653**
Other operating income	105	170
Exchange gain (loss)	197	(187)
Share of losses of associates	-	(66)
Total value added	**16,743**	**15,570**
Distribution:		
To employees in salaries and other related costs	8,993	8,940
To government in corporate and other taxes	1,309	1,330
To providers of capital:		
- Interest paid on borrowings from bank	516	380
Retained for re-investment and future growth		
- Depreciation and amortisation	2,350	2,231
- Accumulated profits	2,030	1,627
- Minority interest	897	582
Non-production cost and income:		
- Bad debts and provision for doubtful debts	648	480
Total distribution	**16,743**	**15,570**

PRODUCTIVITY DATA

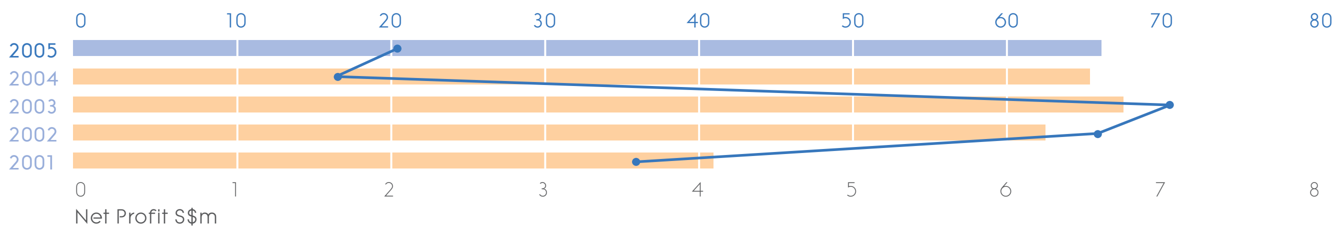
	2005	2004
Number of employees	603	766
Value added per employee ($'000)	28	20
Value added per $ of employment cost	1.86	1.74
Value added per $ sales	0.25	0.24
Value added per $ of investment in property, plant and equipment	0.52	0.55

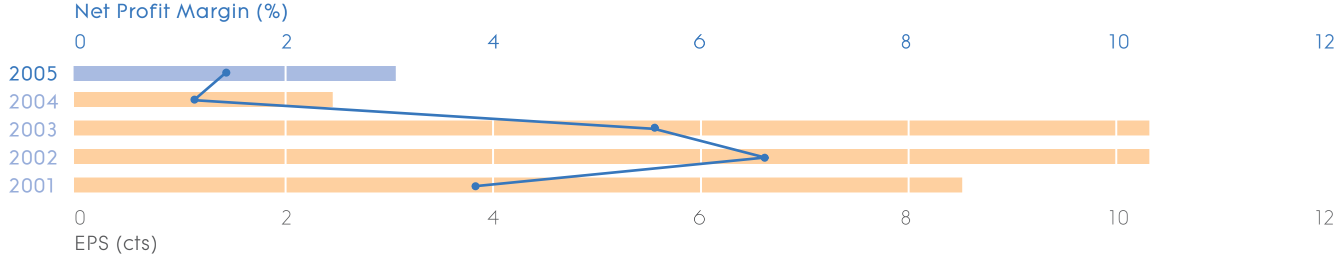
GROUP FINANCIAL HIGHLIGHTS

	2005	2004	2003	2002	2001
FOR THE YEAR ($'000)					
Turnover	66,267	65,492	67,680	62,693	41,249
Earnings Before Interests, Tax, Depreciation and Amortisation (EBITDA)	6,948	6,095	11,514	10,041	5,647
Net Profit Before Tax and Minority Interests	4,088	3,487	9,554	8,588	4,373
Net Profit After Tax and Minority Interests (PATMI)	2,030	1,627	7,016	6,547	3,558
Net Profit Margin (%)	3.1%	2.5%	10.4%	10.4%	8.6%
AT YEAR END ($'000)					
Total Assets	68,421	64,882	57,246	43,736	35,315
Net Tangible Assets	43,798	40,545	39,870	28,138	17,135
Shareholders' Equity	45,695	42,390	40,731	28,226	17,233
Total Liabilities	22,726	22,492	16,515	15,510	10,347
Cash and Cash Equivalents	4,336	4,153	4,124	7,821	1,335
Debt to Equity Ratio (times)	0.56	0.60	0.45	0.56	0.60
PER SHARE					
Earnings Per Share (cents)	1.58	1.27	*5.55	6.58	3.88
Gross Dividend Per Share (cents)	0.5	-	0.6	1.2	0.6
Net Assets Per Share (cents)	35.5	33.1	38.3	27.4	20.8
Net Tangible Assets Per Share (cents)	34.0	31.6	37.5	27.3	20.7
RETURNS (%)					
Return on Turnover	3.1%	2.5%	10.4%	10.4%	8.6%
Return on Shareholders' Funds	5.0%	4.3%	19.2%	23.5%	20.7%
Return on Total Assets	3.0%	2.5%	12.3%	15.0%	12.9%

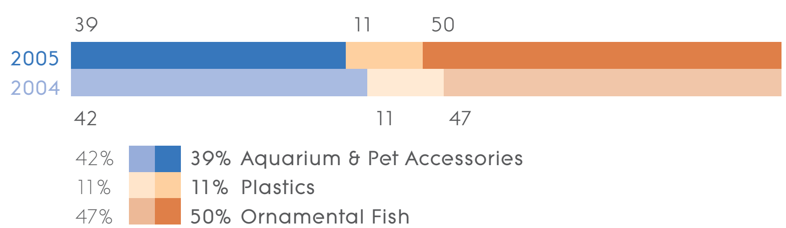
* after adjustment for bonus issue in 2004

GROWTH INDICATORS



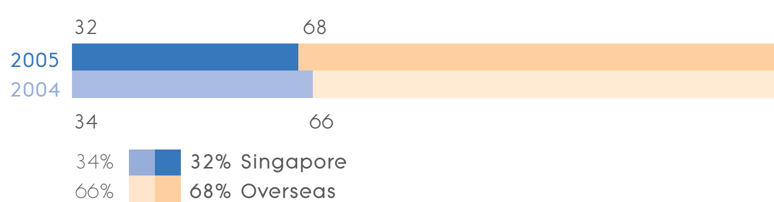


Turnover by Activities (Full year ended 31 December)

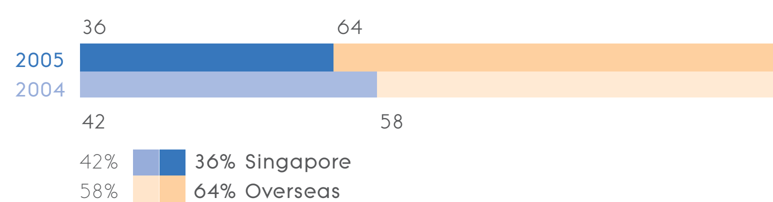


Net Profit by Activities (Full year ended 31 December)

Turnover by Geographical Regions (Full year ended 31 December)



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



OPERATING AND FINANCIAL REVIEW

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.

OVERVIEW

Currently, Qian Hu has presence in 5 countries, namely, Singapore, Malaysia, Thailand, China and Taiwan, which consists of 10 subsidiaries and an associate (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 1,000 species and varieties of ornamental fish directly to more than 60 countries as well as distributes to local retailers and exporters.

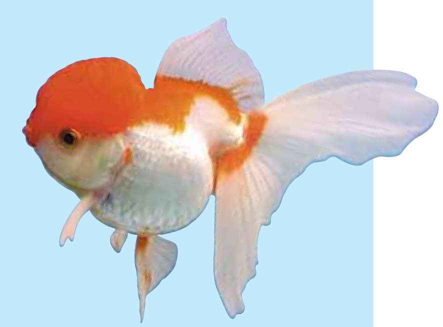
Accessories

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.

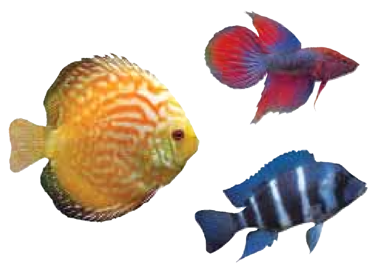
In addition, the Group has developed its own brand of aquarium and pet accessories under the names "Ocean Free", "Delikate", "BARK" and "ARISTO-CATS YI HU". The Group also has production facilities in Guangzhou, China to manufacture aquarium and pet accessories for the Group as well as for third parties.

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 4 countries, namely Singapore, Thailand, Malaysia and China. The Group will continue to export more fish to more customers and countries all over the world from these 4 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 the process of professionalizing a highly fragmented ornamental fish and aquarium & pets accessories retail market by setting up its 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. With 12 retail chain stores set up as at 31 December 2005, the Group will continue to set up more chain stores in the current financial year, especially in Malaysia.

TO BE THE
TOP 3 MANUFACTURERS OF AQUARIUM ACCESSORIES IN CHINA

In order to capture a larger extend within the value chain as well as to build up its own brand of accessories products, the Group has increased the production capacity of its Guangzhou manufacturing base by moving into a bigger factory in FY 2004. With the increasing demand supported by its existing distribution network and with more of its suppliers and new customers from other parts of the world engaging the factory to produce their aquarium products (OEM), the Group is able to enhance its factory's production efficiency and hence, further increase the turnover and profit contributions from the Guangzhou factory with the aim 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 increased production of Dragon Fish in its farms. This will enhance the Group's ability to ride on the growth in demand for Dragon Fish on and improve profitability from its Dragon Fish sales.

FINANCIAL PERFORMANCE

	2005 $'000	2004 $'000	Change %
SELECTED PROFIT AND LOSS DATA			
Turnover			
- Ornamental fish	33,461	31,180	7.3
- Accessories	25,635	27,307	(6.1)
- Plastics	7,171	7,005	2.4
Total turnover	**66,267**	**65,492**	**1.2**
Less : Cost of sales	(42,570)	(42,538)	0.1
Gross profit	**23,697**	**22,954**	**3.2**
Add : Other operating income	105	170	(38.2)
Less : Operating expenses	(19,714)	(19,637)	0.4
Operating profit	4,088	3,487	17.2
Add : Share of losses of associates	-	(66)	(100.0)
Profit before taxation	**4,088**	**3,421**	**19.5**
Less : Taxation	(1,161)	(1,212)	(4.2)
Less : Minority interests	(897)	(582)	54.1
Profit after taxation and minority interests	**2,030**	**1,627**	**24.8**
SELECTED BALANCE SHEET DATA			
Total assets	**68,421**	**64,882**	**5.5**
- Property, plant and equipment	12,666	14,061	(9.9)
- Brooder stocks	9,962	6,926	43.8
- Inventories	21,930	21,632	1.4
- Trade receivables	15,126	13,674	10.6
- Cash and cash equivalents	4,336	4,153	4.4
Total liabilities	**22,726**	**22,492**	**1.0**
Total shareholders' equity	**45,695**	**42,390**	**7.8**
Capital expenditure	**4,653**	**3,017**	**54.2**

TURNOVER

TURNOVER BY BUSINESS ACTIVITIES

$'000	Fish 2005	Fish 2004	Accessories 2005	Accessories 2004	Plastics 2005	Plastics 2004	Total 2005	Total 2004
1st Quarter	8,342	7,171	6,225	7,462	1,761	1,616	16,328	16,249
2nd Quarter	7,807	9,509	6,069	6,762	1,766	1,739	15,642	18,010
3rd Quarter	8,626	7,140	5,564	6,704	1,807	1,865	15,997	15,709
4th Quarter	8,686	7,360	7,777	6,379	1,837	1,785	18,300	15,524
Total	33,461	31,180	25,635	27,307	7,171	7,005	66,267	65,492

TURNOVER BY GEOGRAPHICAL LOCATION

$'000	Singapore 2005	Singapore 2004	Overseas 2005	Overseas 2004	Total 2005	Total 2004
1st Quarter	5,916	6,198	10,412	10,051	16,328	16,249
2nd Quarter	5,049	5,278	10,593	12,732	15,642	18,010
3rd Quarter	5,058	5,526	10,939	10,183	15,997	15,709
4th Quarter	5,055	4,434	13,245	11,090	18,300	15,524
Total	21,078	21,436	45,189	44,056	66,267	65,492

For the year ended 31 December 2005, 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 increased marginally by $0.8 million or 1.2% from $65.5 million for the year ended 31 December 2004 to $66.3 million for the year ended 31 December 2005.

Ornamental fish

Improved Dragon Fish sales dominate the growth in ornamental fish turnover in FY2005, coupled with the continuous effort to increase export of ornamental fish to more customers and more countries around the world from Singapore and Thailand, has given rise to the increase in ornamental fish turnover as compared to the previous financial year.

The above increase, however, was partially offset by the reduction in sales of other ornamental fish recorded by its Malaysia fish division during the financial year.

Accessories

The lower demand from both domestic and Malaysia markets has led to a reduction in accessories sales locally and in the Malaysia subsidiary, thus resulted in a dip in accessories turnover by $1.7 million or 6.1% in FY 2005 as compared to FY 2004.

Plastics

Operating conditions for the plastics activities remained competitive. The Group managed to sustain its turnover in FY 2005. The Group will continue to focus on generating sales through selling more high margin-yield 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 6.1% mainly as a result of a 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 5.0% in FY 2005 as compared to FY 2004. Both the Singapore and overseas operations' constant effort in expanding the 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:

	2005 $'000	2004 $'000	Change %
STAFF COST			
Directors' remuneration	1,264	1,141	10.8
Salary and related cost	6,794	6,808	(0.2)
Provident Fund contribution	547	550	(0.5)
Staff welfare benefits	388	411	(5.6)
Total staff cost	**8,993**	**8,910**	**0.9**
PREMISES AND EQUIPMENT			
Depreciation of fixed and biological assets	2,312	2,082	11.0
Rental of premises	1,083	694	56.1
Upkeep, repair and maintenance	800	902	(11.3)
Total premises and equipment	**4,195**	**3,678**	**14.1**
Selling and distribution expenses	**2,102**	**2,465**	**(14.7)**
Interest expenses (net)	**510**	**377**	**35.3**
Allowances for			
- doubtful trade receivables	**260**	**385**	**(32.5)**
- due from associates (trade)	**364**	**80**	**355.0**
Exchange (gain) loss	**(197)**	**187**	**(205.3)**
Utilities	**833**	**683**	**22.0**
Consultancy and professional fees	**574**	**443**	**29.6**
Other operating expenses	**2,080**	**2,429**	**(14.4)**
Total operating expenses	**19,714**	**19,637**	**0.4**
Group staff strength	**603**	**766**	**(21.3)**

The Group's operating expenses incurred in FY 2005 were relatively comparable to the previous financial year.

The higher selling and distribution expenses incurred in FY 2004 was mainly due to promotion costs incurred in relation to the newly set up retail chain stores throughout the region in that year.

Despite lower amounts of bank borrowing outstanding as at end of the financial year, the increase in interest expenses in FY 2005 was mainly due to surge in interest rates, especially during the second half of 2005.

PROFITABILITY

PROFIT BY BUSINESS ACTIVITIES

	Fish		Accessories		Plastics		Unallocated corporate expenses		Total	
$'000	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
1st Quarter	1,015	985	48	658	72	104	(420)	(238)	715	1,509
2nd Quarter	485	2,014	398	412	90	46	(383)	(430)	590	2,042
3rd Quarter	1,161	585	415	(916)	162	84	(327)	(491)	1,411	(738)
4th Quarter	1,772	719	(289)	133	106	75	(217)	(253)	1,372	674
Total	4,433	4,303	572	287	430	309	(1,347)	(1,412)	4,088	3,487

The better performance from all business activities in FY 2005 has resulted in the overall increase in operating profit achieved of $0.6 million or 17.2% as compared to the previous financial year. The fish business was the main profit contributor in FY 2005.

Ornamental fish

The Group's increase in operating profit from the ornamental fish activities was in line with the higher sales recorded and better margins yielded from the sales of self-bred Dragon Fish. The increase, however, was partially offset by the lower profit recorded by its Malaysia fish division due to lower sales recorded for other ornamental fish, hence, resulting in merely a marginal increase in profitability.

Accessories

The increase in profitability from the accessories activities by approximately $0.3 million or 99.3% in FY 2005 as compared to FY 2004 was due to:

- operational efficiency of the Guangzhou factory being gradually restored since the beginning of the year as compared to losses incurred by the factory due to production inefficiency and down-time as a result of its relocation to a new site and the continuous expansion in FY 2004
- no significant amounts of pre-operational costs incurred by the newly set up retail chain stores were written off in FY 2005
- improved profitability from the retail chain stores throughout the region which commenced operations mostly in the second half of 2004

Plastics

Operating profit from the plastic business improved in FY 2005 as the Group made conscientious effort to contain its operating costs and to focus on selling products with better margin yield.

TAXATION

Despite applying the concessionary tax rate of 10% from the Company's IHQ status on its qualifying income in both years, the tax charge was 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 tax authorities; and

(ii) varying statutory tax rates of different countries in which the Group operates.

CASH FLOWS & LIQUIDITY

Cash & cash equivalents

There was significant improvement in the Group's **net cash generated from operating activities** for the year ended 31 December 2005 as the Group managed to reduce the amount of inventory holding as compared to the corresponding period in 2004. In addition, the amount of income tax paid in FY 2005 was lower due to lower profit recorded for the financial year ended 31 December 2004.

Net cash used in investing activities mainly relate to the purchase of brooder stocks made by one of its subsidiaries, capital expenditure incurred for farm facilities by its overseas entities, as well as for the setting up of retail chain stores throughout the region.

Net cash used in financing activities was for loan repayments made to financial institutions and minority shareholders of subsidiaries, and the settlement of finance lease obligations on a monthly basis.

The movement in cash and cash equivalents is set out as follows:

	2005 $'000	2004 $'000
Cash generated from (used in) operating activities	6,700	(3,120)
Cash used in investing activities	(4,043)	(2,863)
Cash (used in) generated from operating activities	(2,474)	6,012
Net increase in cash and cash equivalents	183	29
Cash and cash equivalents as at end of year	4,336	4,153

Indebtedness

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

	2005 $'000	2004 $'000
Due within 1 year:		
Bills payable to banks		
- secured	1,469	395
- unsecured	1,241	894
Finance lease obligations	261	321
Short term bank loans (unsecured)	6,200	7,295
Long term bank loans, current portion (secured)	161	145
Bank overdraft (secured)	438	-
	9,770	9,050
Due after 1 year:		
Finance lease obligations	214	437
Long term bank loans (secured)	906	1,046
	1,120	1,483
Total Indebtedness	10,890	10,533
Debt-to-Equity ratio	**0.56**	**0.60**

The unsecured short term bank loans are revolving bank loans which bear interest at rates ranging from 3.81% to 5.31% (2004: 3.13% to 3.94%) per annum.

The secured long term loans comprise:

- an 8-year bank loan of $1.1 million which bears interest at 7.5% (2004: 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% (2004: 7.75%) per annum and is repayable in 84 instalments commencing January 2005.

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

As at 31 December 2005, there were corporate guarantees given by the Company to banks for banking facilities extended to 3 subsidiaries amounting to $5.1 million (2004: $4.0 million), of which approximately $2.97 million (2004: $1.59 million) had been utilized.

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 2005, 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 institutionalized 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.

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 minimize unexpected losses and manage expected losses. The Group currently operates in 5 countries with assets and activities spreading across the Asia Pacific. As at 31 December 2005, 65% of the Group's assets are located overseas as compared to 63% in FY 2004. Turnover from overseas' customers has also increased from 66% in FY 2004 to 68% in FY 2005.

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 broader base of significant customers will reduce the risk of concentration in a single operation.

Product risk

For the year ended 31 December 2005, the Group's Dragon Fish sales contributed approximately 35% of its ornamental fish sales and approximately 20% of the Group's total turnover. The Group sells over 1,000 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.

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.

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 detects any movements in the respective exchange rates which may have 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. The Group's cash balances are placed with banks and financial institutions which are regulated.

None of the customers or suppliers 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, who are internationally dispersed, so as to reduce concentration of credit risk. Cash terms, advance payments are required for customers with lower credit standing. While the Group faces normal business risks associated with ageing collections and slow moving stocks, our historical experience in the collection of trade receivables and realisation of inventory falls within the recorded allowances. Accordingly, the Group does not expect to incur material credit losses on its risk management or other financial instruments.

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to interest-bearing financial assets and liabilities. Interest rate risk is managed on an on-going basis with the objective of limiting the extent to which net interest expenses could be affected by an adverse movement in interest rates.

The Group obtains additional financing through bank borrowings and finance lease arrangements. It is the Group's policy 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 cash flow 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.

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 segments.

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 there would be 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 increased production of Dragon Fish in the farms. After completing 2 years of the 4-year project, the Group has yielded some interesting results 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-based 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 2005, capital expenditure incurred for infrastructure and farm facilities in both the Singapore and overseas entities amounted to $1.0 million. The purchase of brooder stocks and the setting up retail chain stores throughout the region have accounted for $3.1 million and $0.6 million of the capital expenditure for the financial year respectively.

Bulk of the capital expenditure in FY 2006 will be for the setting up of the retail chain stores in China, Thailand and Malaysia, in addition to the ongoing maintenance of the Group's farm facilities.

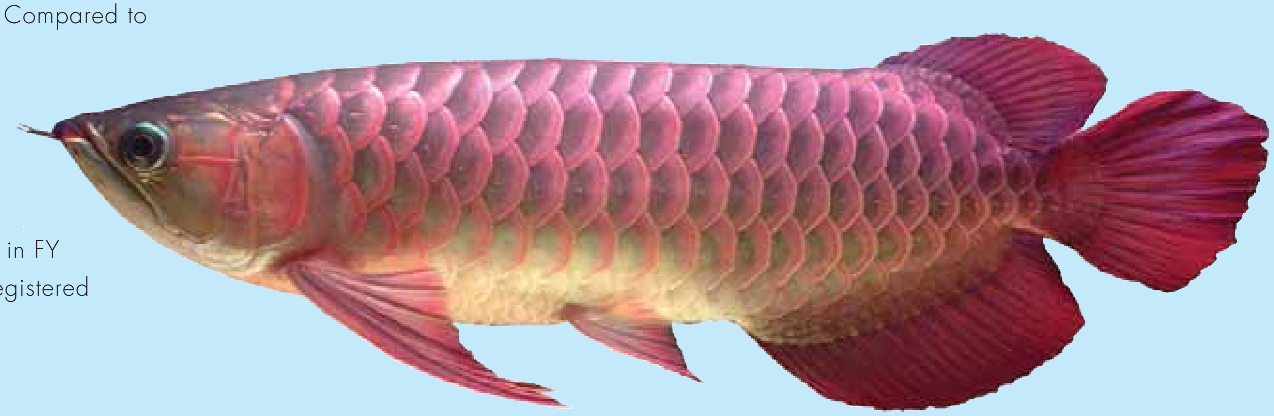
RETURNS TO SHAREHOLDERS

Earnings per ordinary share (EPS)

The basic and diluted EPS for FY 2005 was 1.58 cents. Compared to FY 2004, both basic and diluted EPS increased by 0.31 cents, which was in line with the higher profit after tax recorded in FY 2005.

Net asset value per share

The increase in net asset value per share from 33.1 cents in FY 2004 to 35.5 cents in FY 2005 was the result of profit registered in FY 2005.



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. For the year ended 31 December 2005, the directors are pleased to recommend a gross final dividend of 0.5 cents per ordinary share of $0.10 each. The recommended dividend took into consideration the Group's profit growth, cash position, positive cash flow 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.

A CARING ECOSYSTEM

OUR PEOPLE

Inspired to excellence with clear directions for the Group, Qian Hu's staff at all levels are passionate about the business and take pride in supporting the Qian Hu brand of quality service and products. As we aim to become the world's number one ornamental fish exporter, our people are our key drivers towards excellence and growth.

Our corporate culture is indeed a family-oriented one. We adopt a transparent, consultative approach, one that encourages staff participation and feedback. We are convinced that fostering a positive, supportive and fair working environment helps to keep our staff motivated, and improve productivity and efficiency.

The quality culture at Qian Hu, which pervades throughout the organization, is instilled through exemplary leadership, hands-on management, our ISO-certified quality procedures, and customer feedback. Qian Hu has a formal system in place where organizational quality values are communicated to the rank and file through the Quality Task Force comprising all divisional managers.

Throughout the Group, our OJT (On-The-Job) system helps to formalize our internal training process where supervisors and managers ensure that new and transferred staff are systematically trained on an established training template, ensuring effectiveness and consistency.

This has led to us achieving the People Developer Standard which makes our training even more aligned to our business objectives and makes our staff more aware of their role in the success and sustainability of the Company.

PEOPLE DEVELOPER SINGAPORE

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 CUSTOMERS

Our customers are mainly the wholesalers and fish retailers around the world. More recently, with the launch of our retail chain stores in Malaysia, Thailand and China, the direct consumers are added to our list of valued customers. 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 clients located in Singapore, the region and across continents, it is extremely important to foster long-term customer loyalty and brand equity.

Our vision to be the world's biggest ornamental fish and aquarium & pets accessories service provider has driven us to constantly exceed our customers' expectations and to constantly provide quality service to them. Being customer focused is an objective that Qian Hu does with great passion and success.

OUR SHAREHOLDERS& INVESTORS

The creation of shareholders' value by becoming a world-class ornamental fish and accessories company has always been the mission that has guided the Company through all these years. Excellence in corporate transparency and governance are our top priorities. Since our listing in 2000, we have been very committed and innovative in demonstrating our corporate responsibility, for instance, by being the first company in Singapore to initiate an online open forum, providing a platform for our investors to ask questions and to air their views.

Accessibility to the media and key stakeholders in the investment community has become a key feature of Qian Hu's investor relations commitment. Achieving

top position in the Business Times' Corporate Transparency Index (CTI) of 2005 once gain illustrates our unwavering commitment to reach out to our shareholders and the investing community.

AWARDS

Recognition for Business Excellence

Singapore Quality Award 2004
Awarded by Spring Singapore

International Headquarters Award 2003
Awarded by Ministry for Trade and Industry

Recognition for Corporate Transparency

Top ranking in Business Times Corporate Transparency Index 2004 & 2005

SIAS Most Transparent Company Awards 2004
- Winner in Mainboard Small Caps (Up to 100 million category)
- Runner-Up in Services/Utilities/Agriculture category

SIAS Most Transparent Company Awards 2005
- Runner-up in Mainboard Small Caps (Up to $100 million category)

Recognition for Corporate Goverance

Best Managed Board Award (Special Mention)
November 2003

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

OUR COMMUNITY AND THE ENVIRONMENT

We are equally aware of our responsibility towards our community and the environment. After all, our business is about providing a well-rounded, quality lifestyle particularly to those who appreciate fish and animals that makes living all that more pleasant. Our staff participate in community outreach projects such as visits to homes for the aged, charity fund-raising activities and organising free farm visits for underprivileged children. From 17 - 26 June 2005, we organised our annual exhibition and community outreach event, this time at Parkway Parade. The public were treated to a host of competitions, including fun activities such as "Guess the Fish", "Design Your Own Aquarium in 15 Minutes".

Such community outreach projects do not just stop at the humans, but to our very much neglected animal world as well. Our proprietary brand "Bark" has for the past few years been sponsoring free poo-disposal bags for dogs visiting Botanic Gardens.

At Qian Hu, we aim to be a responsible company, balancing our business goal of creating substantial value with a strong commitment to containing the environmental impact of our activities to a practicable minimum. We strive to preserve our natural environment via our ISO 14001 certified Environment Management System, incorporating best practices into our daily business activities.

Not neglecting the plights of our endangered wildlife, all of our operations conform to the United Nations' Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

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.

1985

In 1985, the 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.

1990

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.

1993

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.

1995

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

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.

1999

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.

2000

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 innovative as well as product and service quality.

2001

A joint venture company in Guangzhou 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 the joint venture, thus making it a wholly owned subsidiary of the Group.

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 Securities Investors Association (Singapore).

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

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 Securities Investors Association (Singapore) for the second time running; Most Admired Company on SESDAQ; highly commended for Best Overall Investor Relations award by IR Magazine

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 an associate company, Jin Jien Hsing Enterprises Ltd, a distributor of pet foods in Taiwan, joined the Group.

2003

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.

In addition, Beijing Qian Hu and Guangzhou Qian Hu 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 9001.

Photo by Peter Lee

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.

2004

2004 was 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 and Bangkok. Brand-named "Qian Hu - The Pet Family", these retail chain stores sells 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 Most Transparent Company Award 2004 from the Securities Investor Association (Singapore). It came in tops in the Mainboard Small Caps (Up to $100 million) category and as runner-up in the Services/Utilities/ Agriculture category.

2005

For the second year running, Qian Hu was named the most transparent company on the Singapore Exchange when it received top marks in the 2005 Corporate Transparency Index published by the Business Times.

Indeed 2005 was a year of transformation and consolidation after the Group underwent a period of rapid expansion, particularly in setting up The Pet Family retail chain stores. By reducing our inventory, the Group sought to increase cash generated and thus reducing gearing. It consolidated its resources and continued to grow,

albeit at a much slower pace. Qian Hu managed to report incremental growth in sales and profit from quarter to quarter throughout the year.

REPORT ON CORPORATE GOVERNANCE

The Board of Directors and Management of Qian Hu Corporation Limited continue to uphold the highest standards of corporate governance by complying with the benchmark set by the Code of Corporate Governance (the "Code") as reviewed by the Council on Corporate Disclocure Governance whose recommendations to revise the Code have been accepted by the Government in July 2005. Listed companies will have to disclose their corporate governance practices and explain deviations from the Code in the annual reports for annual general meetings held from January 2007 onwards. In line with the Company's commitment to maintaining high standards of corporate conduct and notwithstanding that the changes in the Code will only take effect from annual general meeting held from 1 January 2007 onwards, the Board has reviewed the Group's corporate governance processes and has implemented a number of changes taking into account a number of recommendations and revisions made to the Code.

The Board believes that good and well-defined corporate governance establishes and maintains an ethical environment and is an integral element of a sound corporation which provides a solid foundation for a company to be more transparent and forward-looking. It enhances corporate performance and accountability and helps the Company creates long-term sustainable growth and returns for the shareholders.

This report describes the Company's corporate governance processes and structures that were in place throughout the financial year, with specific reference made to the principles and guidelines 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 is collectively responsible for the success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.

The Board of Directors (the "Board") comprises four executive directors and three independent directors having the appropriate mix of core competencies and diversity of experience, which in the course of deliberations, they are obliged to act in good faith and consider all times the interest of 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 roles are to:

- guide the formulation of the Group's overall long-term strategic objectives and directions. This include setting the Group's policies and strategic plans and monitor the achievement of these corporate objectives;
- establish a proper risk management system to ensure that key potential risks faced by the Group are properly identified and managed;
- conduct periodic reviews of the Group's internal controls, financial performance, compliance practices and resource allocation;
- provide oversight in the proper conduct of the Company's business and assume responsibility for corporate governance; and
- ensure Management discharges business leadership and management skills with the highest level of integrity.

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	4	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	12
Andy Yap Ah Siong (Member)	Executive Director	12	12
Lai Chin Yee (Member)	Finance Director	12	12
Low Eng Hua (Member)	Group General Manager	12	5 on overseas posting

Details of the Nominating Committee, Remuneration Committee and Audit Committee are set out on pages 49, 52 and 54 of this Annual Report respectively.

All new and existing directors undergo comprehensive orientation and training programme to develop the requisite individual skills. Newly appointed directors are briefed on their statutory and other duties and responsibilities as directors. They 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 as well as industry-specific knowledge. 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 regularly on risks management, corporate governance and the key changes in the relevant regulatory requirements and accounting standards.

BOARD COMPOSITION AND GUIDANCE

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 is expected to bring a valuable range of experience and expertise to contribute to the development of the Group strategy and the performance of its business.

The profiles of the directors are set out on pages 18 and 19 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. In addition to the day-to-day running of the Group, he is to ensure that each member of the Board and the Management works well together with integrity and competency. As the Chairman and CEO, he schedules Board meetings as and when required, sets the agenda for Board meetings and ensures that quality, quantity, accurateness and timeliness of information flow between the Board, Management and shareholders of the Company. He encourages constructive relations between the Board and Management and between the executive directors and the independent directors. He is also responsible for ensuring compliance with corporate governance guidelines.

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.

The Board established the Nominating Committee in July 2002. The Nominating Committee comprises the three independent directors of the Company, with Mr Tan

Tow Ee as the chairman, and Mr Robson Lee Teck Leng and Mr Chang Weng Leong as members. The chairman of the Nominating Committee is not associated in any way with the substantial shareholders of the Company.

The responsibilities of the Nominating Committee are to determine the criteria for the appointment of new directors; to set up a process for the selection of such appointment and to review 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.

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 Nominating Committee, in consultation with the Board, determines the selection criteria and selects candidates with the appropriate expertise and experience for the position. The Nominating Committee then nominates the most suitable candidate who is only appointed to the Board.

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;
- review the composition of the Board annually to ensure that it has appropriate balance of independent directors;
- 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.

In determining the independence of directors annually, the Nominating Committee reviewed and is of the view that Mr Tan Tow Ee, Mr Robson Lee Teck Leng and Mr Chang Weng Leong are deemed independent and that, no individual or small group of individual dominate the Board's decision-making process. The Nominating Committee has also reviewed and is satisfied that Mr Robson Lee Teck Leng, who sits on multiple boards, has been able to devote adequate time and attention to the affairs of the Company to fulfill his duties as director of the Company, in addition to his multiple board appointments.

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

All directors (including the CEO) submit themselves for re-nomination and re-election at regular intervals of at least once every 3 years. Pursuant to Article 89 of the Company's Articles of Association, one-third of the Board of 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. Thereafter, he is subject to be re-elected at least once every 3 years.

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: 40	Executive / non-independent	12 December 1998	Refer to *below	Qian Hu Corporation Limited
Alvin Yap Ah Seng Age: 40	Executive / non-independent	12 December 1998	10 March 2004	Qian Hu Corporation Limited
Andy Yap Ah Siong Age: 39	Executive / non-independent	12 December 1998	10 March 2004	Qian Hu Corporation Limited
Lai Chin Yee Age: 40	Executive / non-independent	1 November 2004	18 March 2005	Qian Hu Corporation Limited
Robson Lee Teck Leng Age: 37	Non-executive / independent	18 October 2000	18 March 2005	Qian Hu Corporation Limited Sim Lian Group Limited Serial System Limited Best World International Limited Youcan Foods International Limited Man Wah Holdings Limited
Chang Weng Leong Age: 43	Non-executive / independent	18 October 2000	18 March 2005	Qian Hu Corporation Limited
Tan Tow Ee Age: 43	Non-executive / independent	1 May 2002	18 March 2003	Qian Hu Corporation Limited

* Consequent to the amendment of the Company's Articles of Association at the Extraordinary General Meeting held in March 2005, Mr Kenny Yap Kim Lee will retire from office by rotation and be eligible for re-election at the Company's forthcoming AGM.

According to Article 89 of the Company's Article of Assocation, Mr Kenny Yap Kim Lee and Mr Tan Tow Ee will retire at the Company's forthcoming AGM and be eligible for re-election.

The shareholdings of the individual directors of the Company are set out on page 61 of this Annual 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. An effective Board is able to lend support to Management at all times and to steer the Group in the right direction.

The Nominating Committee has established an appraisal process to assess the performance and effectiveness of the Board as a whole as well as to access the contribution of individual directors. It focuses on a set of performance criteria which includes the evaluation of the size and composition of the Board, the Board's access to information, Board processes and accountability, Board performance in relation to discharging its principal responsibilities and the directors' standards of conduct. The Board has taken the view that financial indicators, as set out in the Code as a guide for the evaluation of the Board and its directors, may not be appropriate as there are more of a measurement of Management's performance and therefore less applicable to directors.

More importantly, the Board, through the Nominating Committee, has used its best effort to ensure that directors appointed to the Board whether individually or collectively possess the background, experience, knowledge in our business, competencies in 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 sound, balanced and well-considered decisions to be made.

Reviews of the Board performance, as appropriate, are undertaken collectively by the Board annually and informally on a continual basis by the Nominating Committee.

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.**

All 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. They 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 operational and financial performance. The Articles of Association of the Company provide for directors to convene meetings by teleconferencing or videoconferencing. When a physical meeting Board meeting is not possible, timely communication with members of the Board can be achieved through electronic means.

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 five days 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 Secretaries and to other senior management executives of the Company and of the Group at all times in carrying out their duties. Under the direction of the Executive Chairman, the Company Secretaries, ensure good information flows within the Board and its committees and between senior management and the independent directors, as well as facilitate orientation and assist with professional development as required.

The Company Secretaries attend all Board meetings and meetings of the Board committees of the Company and ensure that Board procedures are followed and that applicable rules and regulations are complied with. The minutes of all Board committees' meetings are circulated to the Board.

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 Executive 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.

(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 reviews the directors, CEO and the key executives, including senior management's, remuneration policy and oversees the development of key executives' talents. It recommends remuneration package to the Board for approval, 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 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 significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.**

In setting remuneration packages, the Company takes into consideration the remuneration 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 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 agreements 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 agreements 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 key executives) is reviewed periodically by the Remuneration Committee and the 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 directors and the controlling shareholders of the Company are entitled to participate in the ESOS. Details of the ESOS are set out on pages 62 and 63 of this Annual Report.

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. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.**

The breakdown of remuneration of the Directors of the Company for the year ended 31 December 2005 is set out below:

Name of director	*Salary $'000	* Bonus $'000	Directors' fees $'000	Total $'000
Kenny Yap Kim Lee, CEO	180	-	-	180
Alvin Yap Ah Seng, Executive	164	-	-	164
Andy Yap Ah Siong, Executive	164	-	-	164
Lai Chin Yee, Executive	138	16	-	154
Robson Lee Teck Leng, Independent	-	-	10	10
Chang Weng Leong, Independent	-	-	10	10
Tan Tow Ee, Independent	-	-	10	10
	646	16	30	692

* The salary and bonus amounts shown are inclusive of allowances and Central Provident Fund contributions. None of the directors of the Company are entitled to participate in the ESOS.

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

Name of executive	*Total Remuneration $'000
Yap Ping Heng	137
Yap Hock Huat	137
Yap Kim Choon	150
Yap Kim Chuan	91
Goh Siak Ngan	150
Jimmy Tan Boon Kim	133
Low Eng Hua	113
Thomas Ng Wah Hong	81
Lee Kim Hwat	117
Bob Goh Ngian Boon	80

* 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, Mr Yap Kim Choon and Mr Yap Kim Chuan are brothers of Mr 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 should present a balaced and understandable assessment of the Company's performance, position and prospects.

In presenting the annual financial statements and quarterly announcements to shareholders promptly, 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 monitoring and 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 accounting implications of major transactions including significant financial reporting issues. In addition, the Audit Committee advises the Board regarding the adequacy of the Group's internal controls and the contents and presentation of its reports.

Specifically, the Audit Committee:

- reviews the audit plans and scope of audit examination of the external and internal auditors, including appraising the quality of their work and the assistance provided to them by the Management;
- recommends to the Board the appointment, re-appointment and removal of external auditors and their fees for shareholders' approval, after evaluating their cost effectiveness, independence and objectivity and the nature and extent of non-audit services provided by them;
- reviews the effectiveness of the internal audit function;
- evaluates the adequacy of the internal control systems of the Group by reviewing written reports from the internal and external auditors, and Management's responses and actions to correct any deficiencies;
- evaluates the adherence to the Group's administrative, operating and internal accounting controls;
- reviews the annual and quarterly financial statements and announcements to shareholders before submission to the Board for adoption;
- reviews interested person transactions 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 has explicit authority to investigate any matter within its terms of reference, and has full access to, and the co-operation of, 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. The Audit Committee meets with the internal auditors and the external auditors separately, at least once a year, 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 external auditors, the scope and quality of their audits and the independence and objectivity of the external auditors.

The Company appointed its current external auditors, Ernst & Young, in financial year 2002 following the majority of the partners and personnel of its previous auditors, Arthur Andersen, joined Ernst & Young that year. Pursuant to Rule 713 of the Listing Manual, an audit partner may only be in charge of the Company's audit for a maximum of five consecutive years, and may then return after two years. Accordingly, Mr Steven Phan (previously with Arthur Andersen), who had been in-charge of more than 5 consecutive audits of the Company, had been replaced by Mr Max Loh with effect from the financial year 2005.

During the financial year, the non-audit related work carried out by the external auditors comprised tax services and the Audit Committee is satisfied that their independence has not been impaired by the provision of those services. The Audit Committee has recommended to the Board that Ernst & Young be nominated for re-appointment as external auditors at the next AGM.

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	5	5
Chang Weng Leong (Member)	Independent	5	5
Tan Tow Ee (Member)	Independent	5	5

While the Audit Committee supports the recommendation of the Code as regards the putting in place of arrangements for staff to raise concern in confidence ("whistle blower"), the Audit Committee would like to make further observations on the development of such arrangements and more importantly the development of legislation to protect the whistle blower.

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 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 internal auditors' reports submitted by the internal auditors and the various controls put in place by the Management, the Audit 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 systems that are in place are intended to provide reasonable but not absolute assurance against material misstatements or loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation and best practices, and the containment of business risks. 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 auditors report primarily to the Chairman of the Audit Committee.

The internal auditors plan 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 internal 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 has adopted quarterly results reporting since 2001. It 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.

The Company communicated pertinent information to its 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 issued via SGXNET onto the SGX website as well as in press releases;
- notices of and explanatory memoranda for AGMs and extraordinary general meetings;
- media and analyst briefings for the Group's half-year and full-year financial results (chaired by the CEO) as well as other briefings, as appropriate;
- disclosures to the SGX-ST and press releases on major developments of the Group;
- the Group's website at www.qianhu.com from which shareholders can access information on the Group. The website provides, inter alia, all publicly disclosed financial information, 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 three years, the Board has 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 detailed AGM minutes are posted onto both the SGX and the Company's website after the meeting.

The Board supports the Code's principle to encourage shareholder participation. The Articles of Association 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 Board takes note that there should be separate resolution at general meetings on each substantially separate issue and supports the Code's principle as regards "bundling" of resolutions. The Board will provide reasons and material implications where resolutions are interlinked.

The Chairmen of the Executive, Audit, Remuneration and Nominating Committees are in attendance at the Company's AGM to address shareholders' questions relating to the work of these Committees. The Company's external auditors, Ernst & Young, are also invited to attend the AGM and are available to assist the directors in addressing any relevant queries by the shareholders relating to the conduct of the audit and the preparation and content of their auditors' report.

DEALING IN SECURITIES

The Group has adopted and implemented the SGX-ST's 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 key executives are expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period. They are also discouraged from dealing in the Company's shares on short-term consideration.

INTERESTED PERSONS TRANSACTIONS

Disclosure of interested persons transactions is set out on page 113 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 2005, the Company has generally adhered to the principles and guidelines as set out in the Code of Corporate Governance 2005.

FINANCIAL STATEMENTS

financial statements

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 2005.

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
Lai Chin Yee
Robson Lee Teck Leng
Chang Weng Leong
Tan Tow Ee

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 2005	31 December 2005	11 January 2006	1 January 2005	31 December 2005	11 January 2006
The Company						
Ordinary shares of $0.10 each fully paid						
Kenny Yap Kim Lee	5,637,126	5,637,126	5,637,126	–	–	–
Alvin Yap Ah Seng	6,229,872	6,229,872	6,229,872	39,600	39,600	39,600
Andy Yap Ah Siong	6,229,872	6,229,872	6,229,872	178,200	178,200	178,200
Lai Chin Yee	80,400	80,400	80,400	–	–	–
Robson Lee Teck Leng	6,600	6,600	6,600	–	–	–
Chang Weng Leong	39,600	39,600	39,600	–	–	–
Tan Tow Ee	10,000	10,000	10,000	120,000	120,000	120,000

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 2006, 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

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 options shall only be granted on or after the 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.

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

Share options (cont'd)

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 77,000 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 1,218,000 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 options 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

Kenny Yap Kim Lee
Director

Alvin Yap Ah Seng
Director

Singapore
12 January 2006

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 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 2005 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.

On behalf of the Board of Directors

Kenny Yap Kim Lee
Director

Alvin Yap Ah Seng
Director

Singapore
12 January 2006

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 66 to 119 for the year ended 31 December 2005. 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 2005, 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.

ERNST & YOUNG
Certified Public Accountants

Singapore
12 January 2006

BALANCE SHEETS

as at 31 December 2005

(In Singapore dollars)

	Note	Group 2005 $	Group 2004 $	Company 2005 $	Company 2004 $
Non-current assets					
Property, plant and equipment	3	12,665,599	14,060,956	3,199,783	3,565,915
Brooder stocks	4	9,961,895	6,926,116	1,284,360	1,313,550
Investments in subsidiaries	5	–	–	9,959,406	9,347,890
Investments in associates	6	–	–	28,722	28,722
Quoted equity investment		3,647	3,564	–	–
Intangible assets	7	1,896,283	1,845,309	157,213	103,434
Current assets					
Inventories	8	20,208,130	19,909,846	5,444,297	5,211,774
Breeder stocks	9	1,721,800	1,721,800	245,800	245,800
Trade receivables	10	15,125,859	13,674,424	7,306,059	6,685,375
Other receivables, deposits and prepayments	11	1,799,382	1,792,476	334,633	280,184
Due from					
- subsidiaries (trade)	12	–	–	16,213,014	15,196,986
- subsidiaries (non-trade)	13	–	–	2,235,930	3,130,522
- associates (trade)	14	264,614	794,471	264,614	563,627
Fixed deposits	15	23,046	23,046	23,046	23,046
Cash and bank balances		4,750,282	4,129,912	2,852,125	2,558,016
		43,893,113	42,045,975	34,919,518	33,895,330

	Note	Group 2005 $	Group 2004 $	Company 2005 $	Company 2004 $
Current liabilities					
Trade payables		4,465,515	4,182,423	2,304,616	2,020,268
Bills payable to banks	16	2,710,354	1,289,428	1,240,704	893,716
Other payables and accruals	17	3,510,623	2,899,111	2,501,206	2,297,535
Due to					
- subsidiaries (trade)	12	–	–	340,605	80,716
- subsidiaries (non-trade)	13	–	–	410,000	–
- minority shareholders of subsidiaries (non-trade)	13	1,252,430	2,736,847	–	1,270,456
Finance lease obligations	18	260,852	320,703	119,496	133,555
Bank term loans	19	6,360,808	7,440,082	6,200,000	7,295,000
Provision for taxation		850,689	973,479	324,827	361,678
Bank overdraft (secured)	16	437,586	–	–	–
		19,848,857	19,842,073	13,441,454	14,352,924
Net current assets		24,044,256	22,203,902	21,478,064	19,542,406
Non-current liabilities					
Finance lease obligations	18	(214,008)	(436,572)	(100,380)	(217,610)
Bank term loans	19	(906,307)	(1,045,891)	–	–
Deferred taxation	27	(1,756,840)	(1,167,439)	(235,000)	(235,000)
Net assets		45,694,525	42,389,945	35,772,168	33,449,307
Equity attributable to equity holders of the Company					
Share capital	20	12,887,293	12,821,124	12,887,293	12,821,124
Reserves	21	27,637,492	24,808,117	22,884,875	20,628,183
		40,524,785	37,629,241	35,772,168	33,449,307
Minority interests		5,169,740	4,760,704	–	–
Total equity		45,694,525	42,389,945	35,772,168	33,449,307

The accounting policies and explanatory notes form an integral part of the financial statements.

PROFIT AND LOSS ACCOUNTS

for the year ended 31 December 2005

(In Singapore dollars)

	Note	Group		Company	
		2005	2004	2005	2004
		$	$	$	$
Turnover	22	66,266,643	65,492,022	37,782,955	39,178,278
Cost of sales		(42,570,095)	(42,538,363)	(26,542,480)	(27,237,441)
Gross profit		23,696,548	22,953,659	11,240,475	11,940,837
Other operating income		105,424	170,382	198,323	215,923
Selling and distribution expenses		(2,101,633)	(2,465,192)	(1,145,360)	(990,902)
General and administrative expenses		(17,101,728)	(16,793,959)	(7,879,439)	(8,525,280)
Profit from operations	23	4,598,611	3,864,890	2,413,999	2,640,578
Financial expenses	26	(516,357)	(379,607)	(366,366)	(244,428)
Financial income	26	6,084	2,916	–	–
		4,088,338	3,488,199	2,047,633	2,396,150
Share of losses of associates		–	(66,444)	–	–
Profit before taxation carried forward		4,088,338	3,421,755	2,047,633	2,396,150

	Note	Group		Company	
		2005	2004	2005	2004
		$	$	$	$
Profit before taxation brought forward		4,088,338	3,421,755	2,047,633	2,396,150
Taxation	27	(1,160,633)	(1,212,196)	(360,000)	(357,000)
Profit for the year		2,927,705	2,209,559	1,687,633	2,039,150
Attributable to:					
Equity holders of the Company		2,030,289	1,627,282	1,687,633	2,039,150
Minority interests		879,416	582,277	–	–
		2,927,705	2,209,559	1,687,633	2,039,150
Earnings per share (cents)	29				
Basic		1.58	1.27		
Diluted		1.58	1.27		

The accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2005

(In Singapore dollars)

	Share capital $	Share premium $	Revenue reserve $	Translation reserve $	Total attributable to equity holders of the Company $	Minority interests $	Total equity $
Group							
Balance as at 1 January 2004	10,626,847	7,281,785	18,828,755	(186,303)	36,551,084	4,180,208	40,731,292
Minority interest arising from the acquisition of a subsidiary	–	–	–	–	–	189,330	189,330
Currency translation differences	–	–	–	(491,526)	(491,526)	(191,111)	(682,637)
Net profit for the year	–	–	1,627,282	–	1,627,282	582,277	2,209,559
Dividends (Note 28)	–	–	(511,183)	–	(511,183)	–	(511,183)
Issue of new shares	64,348	389,236	–	–	453,584	–	453,584
Bonus issue of shares via capitalisation of share premium account	2,129,929	(2,129,929)	–	–	–	–	–
Balance as at 31 December 2004 and 1 January 2005	12,821,124	5,541,092	19,944,854	(677,829)	37,629,241	4,760,704	42,389,945
Minority interest relating to disposal of a subsidiary	–	–	–	–	–	(616,635)	(616,635)
Currency translation differences	–	–	–	230,027	230,027	128,255	358,282
Net profit for the year	–	–	2,030,289	–	2,030,289	897,416	2,927,705
Issue of new shares	66,169	569,059	–	–	635,228	–	635,228
Balance as at 31 December 2005	12,887,293	6,110,151	21,975,143	(447,802)	40,524,785	5,169,740	45,694,525

	Share capital $	Share premium $	Revenue reserve $	Total $
Company				
Balance as at 1 January 2004	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 and 1 January 2005	12,821,124	5,541,092	15,087,091	33,449,307
Net profit for the year	–	–	1,687,633	1,687,633
Issue of new shares	66,169	569,059	–	635,228
Balance as at 31 December 2005	12,887,293	6,110,151	16,774,724	35,772,168

The accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2005

(In Singapore dollars)

	2005	2004
	$	$
Cash flows from operating activities		
Profit before taxation and minority interests	4,088,338	3,421,755
Adjustments for:		
Bad trade receivables written off	24,195	15,463
Depreciation of		
- property, plant and equipment	2,145,890	1,936,165
- brooder stocks	165,830	146,322
Property, plant and equipment written off	1,059	–
Loss on disposal of		
- property, plant and equipment	11,935	2,384
- subsidiaries	30,088	55,221
Gain arising from changes in fair values less estimated point-of-sale costs attributable to physical changes of breeder stocks	–	(228,110)
Amortisation of		
- trademarks / customer acquisition costs	2,870	43,602
- product listing fees	35,202	13,176
- goodwill on consolidation	–	91,000
- land use rights	–	328
Allowance for		
- doubtful trade receivables	259,885	384,659
- due from associates (trade)	364,081	80,000
- doubtful non-trade receivables written back	–	(6,179)
Share of losses of associates	–	66,444
Interest expenses	516,357	379,607
Interest income	(6,084)	(2,916)
Net effect of exchange differences	8,115	(21,556)
Operating profit before working capital changes carried forward	7,647,761	6,377,365

	2005	2004
	$	$
Operating profit before working capital changes brought forward	7,647,761	6,377,365
(Increase) decrease in:		
Inventories	(220,207)	(5,465,481)
Trade receivables	(2,172,439)	(1,143,407)
Other receivables, deposits and prepayments	48,643	(93,083)
Due from associates (trade)	89,268	(213,493)
Increase (decrease) in:		
Trade payables	326,663	(198,348)
Bills payable to banks	1,411,766	(660,995)
Other payables and accruals	619,136	(259,652)
Cash generated from (used in) operations	7,750,591	(1,657,094)
Payment of income tax	(549,901)	(1,110,061)
Interest paid	(501,056)	(353,036)
Net cash generated from (used in) operating activities	6,699,634	(3,120,191)
Cash flows from investing activities		
Purchase of		
- property, plant and equipment (Note 3)	(1,645,607)	(2,852,794)
- brooder stocks (Note 4)	(3,071,688)	–
Proceeds from disposal of		
- property, plant and equipment	254,099	364,341
- land use rights	–	89,487
Payment for trademarks / customer acquisition costs and product listing fees	(88,981)	(77,335)
Acquisition of a subsidiary (Note A)	–	(718,805)
Disposal of subsidiaries, net of cash and cash equivalents (Note B)	509,265	332,279
Net cash used in investing activities	(4,042,912)	(2,862,827)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2005

(In Singapore dollars)

	2005	2004
	$	$
Cash flows from financing activities		
Proceeds from issuance of new shares	–	54,720
Drawdown of		
- bank term loans	405,000	7,589,066
- loan from minority shareholders of subsidiaries	177,840	204,389
Repayment of		
- finance lease obligations	(382,261)	(355,650)
- bank term loans	(1,651,427)	(425,565)
- loans from minority shareholders of subsidiaries	(1,029,174)	(547,085)
Payment of dividend to shareholders	–	(511,183)
Interest received	6,084	2,916
Net cash (used in) generated from financing activities	(2,473,938)	6,011,608
Net increase in cash and cash equivalents	182,784	28,590
Cash and cash equivalents at beginning of year	4,152,958	4,124,368
Cash and cash equivalents at end of year (Note C)	4,335,742	4,152,958

Notes to the Consolidated Statement of Cash Flows

Note A: Summary of effects on acquisition of a subsidiary

The fair value of attributable assets and liabilities of the subsidiary acquired and the cash flow effect of the acquisition is set out as follows:

	2005 $	2004 $
Property, plant and equipment	–	994,183
Inventories	–	822,983
Trade receivables	–	275,200
Other receivables, deposits and prepayments	–	243,715
Cash and bank balances	–	24,173
Trade payables	–	(86,928)
Other payables and accruals	–	(13,359)
Due to holding company	–	(1,156,294)
Bank term loan	–	(47,096)
Net identifiable assets acquired	–	1,056,577
Less:		
Minority interests	–	(388,636)
Goodwill on consolidation	–	50,864
Net cash outflow from acquisition of a subsidiary	–	718,805

(In Singapore dollars)

Notes to the Consolidated Statement of Cash Flows (cont'd)

Note B: Summary of effects on disposal of subsidiaries

The fair value of attributable assets and liabilities of the subsidiaries disposed of and the cash flow effect of the disposals are set out as follows:

	2005	2004
	$	$
Property, plant and equipment	908,800	–
Inventories	192,203	–
Trade receivables	408,911	–
Other receivables	58,678	27,991
Due from		
- related companies	66,093	575,557
- holding company	–	651,630
Cash and bank balances	46,352	23,278
Trade payables	(82,165)	–
Other payables	(23,555)	–
Due to minority shareholders	(205,017)	–
Net assets disposed	1,370,300	1,278,456
Less: Minority interest	(616,635)	–
	753,665	1,278,456
Loss on disposal of subsidiaries	(30,088)	(55,221)
Total consideration	723,577	1,223,235
Less:		
Cash and bank balances disposed	(46,352)	(23,278)
Due from subsidiaries	(82,786)	(647,678)
Deferred cash settlement	(85,174)	(220,000)
Net cash inflow from disposal of subsidiaries	509,265	332,279

Notes to the Consolidated Statement of Cash Flows (cont'd)

Note C: Cash and cash equivalents

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

	2005 $	2004 $
Cash and bank balances	4,750,282	4,129,912
Fixed deposits	23,046	23,046
Bank overdraft (secured)	(437,586)	–
Cash and cash equivalents	4,335,742	4,152,958

Cash and bank balances earn interests at floating rates based on daily bank deposit rates ranging from 0.21% to 0.25% (2004: 0.18% to 0.22%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

(In Singapore dollars)

1. Corporate information

The Company is a limited company domiciled and incorporated in the Republic of Singapore with its registered office and principal place of business 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 Group and the Company have 603 and 121 (2004: 766 and 126) employees at the end of the financial year respectively.

2. Significant accounting policies

2.1 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 and quoted equity investment that have been measured at their fair values.

2.2 Changes in accounting policies

The accounting policies have been consistently applied by the Group and the Company and are consistent with those used in the previous financial year, except for the changes in accounting policies discussed below.

(a) Adoption of new FRS

In 2005, the Group and the Company adopted the following new FRS which are relevant to its operations.

(i) FRS 39 – Financial Instruments: Recognition and Measurement

The Group and the Company adopted FRS 39 prospectively on 1 January 2005. At that date, financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate.

Financial assets that are classified as financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value while loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

At 1 January 2005, financial liabilities within the scope of FRS 39 were measured at amortised costs using the effective interest method.

(ii) FRS 103 – Business Combinations

FRS 36 (revised) – Impairment of Assets

FRS 38 (revised) – Intangible Assets

FRS 103 has been applied for business combinations on or after 1 January 2005. The effect of the adoption of FRS 103 and revised FRS 36 by the Group has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (unless an event occurs during the year which requires the goodwill to be tested more frequently) from 1 January 2005. The transitional provisions of FRS 103 have required the Group to eliminate at 1 January 2005, the carrying amount of the accumulated amortisation of goodwill of $131,795.

Moreover, the useful lives of intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Until 31 December 2004, intangible assets were considered to have a finite useful life with a rebuttable presumption that life would not exceed twenty years from the date when the asset was available for use. In accordance with the revised FRS 38, some of the intangible assets are regarded to have an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Accordingly, trademarks / customer acquisition costs are considered to have an indefinite useful life.

The above changes in accounting policies have no significant impact on the comparatives or the opening balance of reverse reserve of the Group and of the Company.

2.2 Changes in accounting policies (cont'd)

(b) Adoption of revised FRS

In 2005, the Group and the Company adopted the following revised FRS which are relevant to its operations.

(i) FRS 21 (revised) – The Effects of Changes in Foreign Exchange Rates

As a result of the adoption of FRS 21 (revised), any goodwill arising on the acquisition of a foreign subsidiary and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are now treated as assets and liabilities of the foreign operation and translated at the closing rate accordingly. In accordance with the transitional provision of revised FRS 21, this policy is adopted prospectively to all acquisitions occurring after 1 January 2005. Accordingly, comparative figures are not restated.

Goodwill acquired and any fair value adjustments to the carrying amounts of assets and liabilities which arose on acquisitions before 1 January 2005 were deemed to be assets and liabilities of the parent company. This change in accounting policy has no significant impact on the financial statements as at 31 December 2005 or 31 December 2004.

(ii) Other revised FRS

In addition, the Group adopted the following revised standards which did not result in any significant change in accounting policies:

FRS 1 (revised)	–	Presentation of Financial Statements
FRS 2 (revised)	–	Inventories
FRS 8 (revised)	–	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 (revised)	–	Events after the Balance Sheet Date
FRS 16 (revised)	–	Property, Plant and Equipment
FRS 17 (revised)	–	Leases
FRS 24 (revised)	–	Related Party Disclosures
FRS 27 (revised)	–	Consolidated and Separate Financial Statements
FRS 28 (revised)	–	Investments in Associates
FRS 31 (revised)	–	Interests in Joint Ventures
FRS 32 (revised)	–	Financial Instruments: Disclosure and Presentation
FRS 33 (revised)	–	Earnings Per Share

(c) FRS and INT FRS not yet effective

The Group and the Company have not applied the following FRS and INT FRS that have been issued but are only effective for annual financial periods beginning on or after 1 January 2006:

(i) FRS 106 – Exploration for and Evaluation of Mineral Resources

This standard does not apply to the activities of the Group.

(ii) INT FRS 104 – Determining Whether an Arrangement Contains a Lease

This interpretation requires the determination of whether an arrangement is, or contains a lease to be based on the substance of the arrangement and requires an assessment of whether the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the financial statements in the period of initial application.

(iii) INT FRS 105 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This interpretation is not expected to be relevant to the activities of the Group.

2.3 Significant accounting estimates and judgements

The preparation of financial statements in conformity with FRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

2.3 *Significant accounting estimates and judgements (cont'd)*

(a) *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Impairment of goodwill

  The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Group's goodwill at 31 December 2005 was $1,739,070 (2004: $1,739,070). More details are provided in Note 7.

- Depreciation of property, plant and equipment and broader stocks

  These assets are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these assets to be within 3 to 50 years. The carrying amounts of the Group's property, plant and equipment and broader stocks at 31 December 2005 were $12,665,599 (2004: $14,060,956) and S9,961,895 (2004: $6,926,116) respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

- Income taxes

  The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables at 31 December 2005 was $850,689 (2004: $973,479).

(b) *Critical judgement made in applying accounting policies*

Judgement made by management in the application of FRS that has a significant effect on the financial statements and in arriving at estimates with a significant risk of material adjustment in the next financial year is discussed below:

- Impairment of investments and financial assets

  The Group follows the guidance of FRS 39 on determining when an investment or financial asset is other-than-temporarily impaired. This determination requires significant judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment or financial asset is less than its cost; and the financial health of and near-term business outlook for the investment or financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

2.4 *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.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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 2.10. Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. They are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, and are separately disclosed in the consolidated profit and loss account.

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.

2.5 *Subsidiaries and associates*

(a) *Subsidiaries*

Subsidiaries are those companies controlled by the Group. Control exists 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.

(b) *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.

(c) *Quoted investments*

Investments in quoted shares are classified and accounted for as available-for-sale financial assets under FRS 39. The accounting policy for this category of financial asset is stated in Note 2.12.

2.6 *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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 account.

2.7 *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.

(a) *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.

(b) *Brooder stocks*

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 impairment losses. The brooder stocks have been depreciated on a straight-line basis over their estimated useful lives of 50 years.

(c) *Breeder stocks*

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.

2.8 *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 estimated 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

2.8 *Depreciation (cont'd)*

No depreciation is provided on freehold land.

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

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.

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits from items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit and loss account in the year the asset is derecognised.

2.9 *Leases*

Leases on 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.

2.10 *Intangible assets*

(a) *Trademarks/customer acquisition costs*

Trademarks / customer acquisition costs are estimated to have indefinite lives because based on the current market share of the trademarks, management believes there is no foreseeable limit to the period over which the trademarks are expected to generate net cash flows for the Group. Such intangible assets are tested for impairment annually as described in Note 2.11. Previously, trademarks were determined to have a useful life of 3 years and were amortised on a straight-line basis over that period.

(b) *Product listing fees*

Product listing fees with finite lives are stated at cost less accumulated amortisation and impairment losses. These costs are amortised on a straight-line basis over 3 years.

The amortisation period and method are reviewed at least at each financial year end.

(c) *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 impairment losses. Goodwill on the acquisition of subsidiaries is presented as intangible assets. Goodwill on the acquisition of associates is presented together with investments in associates.

Goodwill is tested for impairment on an annual basis as described in Note 2.11.

(d) *Negative goodwill*

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

(e) *Goodwill/negative goodwill previously written off against reserves*

Goodwill that has previously been taken to reserves is not taken to the profit and loss account when (i) the business is disposed of or (ii) the goodwill is impaired. Similarly, negative goodwill that has previously been taken to reserves is not taken to the profit and loss account when the business is disposed of.

2.11 *Impairment of assets*

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is charged to the profit and loss account unless it reverses a previous revaluation, credited to equity, in which case it is charged to equity.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and as and when indicators of impairment are identified.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

2.11 Impairment of assets (cont'd)

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the value of the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the profit and loss account even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the profit and loss account is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account.

(a) Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair values less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(b) Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. However, an impairment loss in respect of goodwill is not reversed. 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.

2.12 Financial assets

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

(a) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(b) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in the above category. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

2.13 *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 manufacturing overheads based on normal operating capacity.

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

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

2.14 *Trade and other receivables*

Trade and other receivables, including intercompany balances, are classified and accounted for as loans and receivables under FRS 39. They are recognised and carried at original invoiced amount, which represents their fair value on initial recognition, less allowance for any uncollectible amounts. Allowance for doubtful receivables is made when collection of the full amount is no longer probable. Bad debts are written off when identified. The accounting policy for this category of financial assets is stated in Note 2.12.

2.15 *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. The accounting policy for this category of financial assets is stated in Note 2.12.

2.16 *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. Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

2.17 *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a 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. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.18 *Derecognition of financial assets and liabilities*

(a) *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The contractual rights to receive cash flows from the asset have expired;
- The Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

  Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group 's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

  Where continuing involvement takes the form of a written and / or purchased option on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss account.

(b) *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss account.

2.19 Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

2.20 Revenue recognition

(a) 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.

(b) Interest income

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

2.21 Employee benefits

(a) Equity compensation benefit

The Company has an employees' share option scheme where employees (including associates of the Company's controlling shareholders) are granted non-transferable options to purchase shares of the Company. No compensation costs or obligation is recognised upon granting or the exercise of the options as the options are granted before 22 November 2002, hence FRS 102 is not applicable. When the options are exercised, equity is increased by the amount of the proceeds received.

(b) 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.

(c) 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 become payable in accordance with the rules of the scheme.

(d) 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.

2.22 Finance costs

Interest expense and similar charges are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale. The interest component of finance lease payments is recognised in the profit and loss account using the effective interest method.

2.23 Income taxes

(a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

(b) Deferred tax

Deferred income tax is provided in full, using the liability method, on all temporary differences arising 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 goodwill not deductible for tax purposes and for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

2.23 Income taxes (cont'd)

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. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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.

(c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or service is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the balance sheet.

2.24 Foreign currency transactions/translation

(a) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit and loss account except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated profit and loss account on disposal of the subsidiary. In the Company's separate financial statements, such exchange differences are recognised in the profit and loss account.

Differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation are also taken directly to the foreign currency translation reserve until the disposal of the net investment, at which time they are recognised in the profit and loss account. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in the foreign currency translation reserve.

(b) Foreign currency translation

The results and financial position of foreign subsidiaries are translated into Singapore dollars using the following procedures:

- Assets and liabilities for each balance sheet presented are translated at the closing exchange rate ruling at that balance sheet date; and

- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions.

2.24 Foreign currency transactions/translation (cont'd)

All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries on or after 1 January 2005 are treated as assets and liabilities of the foreign subsidiaries and are recorded in the functional currency of the foreign subsidiaries and translated at the closing exchange rate at the balance sheet date.

On disposal of a foreign subsidiary, the cumulative amount of exchange differences deferred in equity relating to that foreign subsidiary is recognised in the profit and loss account as a component of the gain or loss on disposal.

2.25 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.

(In Singapore dollars)

3. Property, plant and equipment

Group

	Freehold land & buildings $	Leasehold land $	Leasehold buildings $	Leasehold improvements $	Motor vehicles $	Computers $	Furniture, fittings and office equipment $
At cost							
As at 1 January 2004	4,999,715	79,823	4,408,006	89,952	2,423,641	613,906	596,836
Balance attributable to a subsidiary acquired during the year	579,975	–	–	–	134,300	–	10,924
Additions	598,664	–	49,025	245,157	249,746	155,284	299,409
Disposals / written off	–	–	(338,201)	–	(235,202)	(7,646)	(9,136)
Transfer to moulds	–	–	–	–	–	–	–
Translation differences	(279,225)	(2,753)	(8,330)	(3,101)	(51,823)	(3,458)	(8,443)
As at 31 December 2004 and 1 January 2005	5,899,129	77,070	4,110,500	332,008	2,520,662	758,086	889,590
Additions	236,937	88,560	80,756	11,219	156,881	141,416	246,193
Balance attributable to a subsidiary disposed during the year	(609,837)	–	–	(42,767)	(174,258)	(13,263)	(25,740)
Disposals / written off	–	–	–	–	(250,452)	(18,038)	(21,390)
Translation differences	122,437	(1,835)	–	(6,887)	15,298	3,623	4,198
As at 31 December 2005	5,648,666	163,795	4,191,256	293,573	2,268,131	871,824	1,092,851
Accumulated depreciation and impairment losses							
As at 1 January 2004	164,071	62,084	1,205,498	37,843	1,061,568	425,494	218,187
Charge for the year	160,823	17,127	292,131	36,486	446,384	107,687	94,132
Disposals / written off	–	–	(52,540)	–	(168,007)	(6,411)	(4,419)
Translation differences	(7,261)	(2,141)	(1,294)	(1,305)	(5,364)	(2,130)	(2,734)
As at 31 December 2004 and 1 January 2005	317,633	77,070	1,443,795	73,024	1,334,581	524,640	305,166
Charge for the year	165,832	12,300	299,002	55,118	403,525	112,497	127,916
Balance attributable to a subsidiary disposed during the year	(22,652)	–	–	(8,910)	(32,703)	(4,071)	(3,530)
Disposals / written off	–	–	–	–	(238,383)	(13,090)	(4,835)
Translation differences	7,018	(1,835)	–	(1,633)	6,040	1,379	1,101
As at 31 December 2005	467,831	87,535	1,742,797	117,599	1,473,060	621,355	425,818
Net carrying amount							
As at 31 December 2005	5,180,835	76,260	2,448,459	175,974	795,071	250,469	667,033
As at 31 December 2004	5,581,496	–	2,666,705	258,984	1,186,081	233,446	584,424

Equipment and tools $	Moulds $	Machinery $	Air conditioner $	Ponds and concrete tanks $	Electrical and installation $	Construction-in-progress $	Total $
727,432	465,198	3,000,235	127,950	182,665	816,527	39,661	18,571,547
91,762	–	19,290	385	–	27,000	–	863,636
342,420	533,164	180,603	15,914	–	348,059	–	3,017,445
(3,930)	–	(169,869)	(3,938)	–	–	–	(767,922)
–	38,135	–	–	–	–	(38,135)	–
(37,050)	(17,892)	(36,969)	(1,938)	(7,025)	(14,714)	(1,526)	(474,247)
1,120,634	1,018,605	2,993,290	138,373	175,640	1,176,872	–	21,210,459
178,472	61,543	151,889	49,234	–	176,961	–	1,580,061
(83,147)	–	(20,071)	(3,877)	–	(24,300)	–	(997,260)
(37,199)	–	(132,514)	–	–	(39,495)	–	(499,088)
22,209	30,558	10,561	624	5,269	15,071	–	221,126
1,200,969	1,110,706	3,003,155	184,354	180,909	1,305,109	–	21,515,298
108,821	140,786	1,663,596	60,770	182,665	343,089	–	5,674,472
101,851	133,821	393,959	17,527	–	134,237	–	1,936,165
(3,537)	–	(172,612)	(1,170)	–	–	–	(408,696)
(3,203)	(5,415)	(9,828)	(536)	(7,025)	(4,202)	–	(52,438)
203,932	269,192	1,875,115	76,591	175,640	473,124	–	7,149,503
127,506	209,019	430,792	20,206	–	182,177	–	2,145,890
(10,379)	–	(2,805)	(372)	–	(3,038)	–	(88,460)
(25,369)	–	(94,237)	–	–	(17,349)	–	(393,263)
3,606	8,076	2,714	198	5,269	4,096	–	36,029
299,296	486,287	2,211,579	96,623	180,909	639,010	–	8,849,699
901,673	624,419	791,576	87,731	–	666,099	–	12,665,599
916,702	749,413	1,118,175	61,782	–	703,748	–	14,060,956

(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 and 1 January 2005	4,110,500	1,117,497	485,722	319,874	544,760	91,276	293,293	6,962,922
Additions	80,756	36,442	122,375	16,400	21,325	3,899	–	281,197
Disposals	–	(141,463)	–	–	–	–	–	(141,463)
As at 31 December 2005	4,191,256	1,012,476	608,097	336,274	566,085	95,175	293,293	7,102,656
Accumulated depreciation and impairment losses								
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 and 1 January 2005	1,443,795	797,317	398,184	169,473	327,747	58,084	202,407	3,397,007
Charge for the year	299,002	160,507	66,177	35,262	54,922	11,382	20,077	647,329
Disposals	–	(141,463)	–	–	–	–	–	(141,463)
As at 31 December 2005	1,742,797	816,361	464,361	204,735	382,669	69,466	222,484	3,902,873
Net carrying amount								
As at 31 December 2005	2,448,459	196,115	143,736	131,539	183,416	25,709	70,809	3,199,783
As at 31 December 2004	2,666,705	320,180	87,538	150,401	217,013	33,192	90,886	3,565,915

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

(i) As at 31 December 2005, the net carrying amount of the Group's and the Company's machinery and motor vehicles acquired under finance lease arrangements are as follows :

	Group		Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Net carrying amount as at 31 December				
Machinery	47	61	–	–
Motor vehicles	693	879	231	312
	740	940	231	312

During the financial year, the Group acquired property, plant and equipment with an aggregate fair value of $1,741,328 (2004 : $3,017,445) of which $95,721 (2004: $164,651) was acquired by means of finance lease agreements. Cash payments of $1,645,607 (2004: $2,852,794) were made to purchase property, plant and equipment.

(ii) The Group's freehold land with carrying amount of $2,416,891 (2004: $2,356,199) are subject to a first charge to secure banking facilities for one of the subsidiaries.

(iii) Details of properties held by the Group as at 31 December 2005 are as follows:

Location	Description and existing use	Tenure/ unexpired term	Land area (sqm)	Net carrying amount 2005	Net carrying amount 2004
				$	$
Held by the Company					
- Leasehold buildings					
Nos. 69 & 71 Jalan Lekar, Singapore	Fish farming purposes	20 years from 11 November 1993	41,776	2,448,459	2,666,705
			Balance carried forward	2,448,459	2,666,705

(In Singapore dollars)

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

Location	Description and existing use	Tenure / unexpired term	Land area (sqm)	Net carrying amount 2005 $	Net carrying amount 2004 $
			Balance brought forward	2,448,459	2,666,705
Held through subsidiaries					
- Leasehold land					
Nos. 30/26 Moo 8 Tumbol Klong Nung, Amphur Klong Laung Pathun Thani Province 12120, Thailand	Fish farming purposes	3 years from 1 August 2005	1,600	38,130	–
Nos. 30/23 Moo 8 Tumbol Klong Nung, Amphur Klong Laung Pathun Thani Province 12120, Thailand	Fish farming purposes	3 years from 1 August 2005	1,600	38,130	–
- 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		
Lot MLO No 1140 No 775 Mukim of Minyak Beku, District of Batu Pahat, Johor, Malaysia	Fish farming purposes	Freehold	24,281		
Lot No 1646, 1647, 4138, 4139, 4141, 4937 & 4938 Mukim of Linau, District of Batu Pahat, Johor, Malaysia	Fish farming purposes	Freehold	153,729	5,180,835	4,986,100
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, Indonesia	Fish farming purposes	Freehold	3,719	–	595,396
Lot No 0853, 01219, 01518, 01522, 01523 & 01528 Desa Lubang Buaya / Kantor Pertanahan Kabupaten Bekasi, Indonesia	Fish farming purposes	Freehold	3,683		
				7,705,554	8,248,201

4. Brooder stocks

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
At cost				
As at 1 January	7,316,075	7,587,213	1,459,500	1,459,500
Additions	3,071,688	–	–	–
Translation differences	135,569	(271,138)	–	–
As at 31 December	10,523,332	7,316,075	1,459,500	1,459,500
Accumulated depreciation and impairment losses				
As at 1 January	389,959	249,511	145,950	116,760
Depreciation charge for the year	165,830	146,322	29,190	29,190
Translation differences	5,648	(5,874)	–	–
As at 31 December	561,437	389,959	175,140	145,950
Net carrying amount				
As at 31 December	9,961,895	6,926,116	1,284,360	1,313,550

The brooder stocks are parent stocks of Dragon Fish, held by the Group and the Company for 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 impairment losses.

(In Singapore dollars)

5. Investments in subsidiaries

(a) These comprise:

	Company 2005 $	Company 2004 $
Unquoted equity investments, at cost		
As at 1 January	9,347,890	9,375,428
Additional investment	1,086,516	1,722,908
Disposal of interests in subsidiaries	(475,000)	(1,750,446)
As at 31 December	9,959,406	9,347,890

(b) Details of the subsidiaries as at 31 December 2005 are as follows:

	Name	Principal activities	Country of incorporation and business	Effective equity interest held by the Group 2005 %	Effective equity interest held by the Group 2004 %	Cost of investment by the Company 2005 $	Cost of investment by the Company 2004 $
	Held by the Company						
*	Qian Hu Tat Leng Plastic Pte Ltd	Manufacture of plastic bags	Singapore	100	100	57,050	57,050
T	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, and trading of ornamental fish	Malaysia	65	65	7,699,891	7,699,891
T	Beijing Qian Hu Aquarium and Pets 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
T	Guangzhou Qian Hu Aquarium and Pets Accessories Manufacturing Co., Ltd (formerly known as Guangzhou Wan Jiang Technology Co., Ltd)	Manufacture of aquarium and pet accessories	People's Republic of China	100 ##	80	492,859	492,859
T	Shanghai Qian Hu Aquarium and Pets Co., Ltd	Trading and distribution of ornamental fish and aquarium accessories	People's Republic of China	100	100	1,086,516	– **
					Balance carried forward	9,658,591	8,572,075

5. Investments in subsidiaries (cont'd)

(b) Details of the subsidiaries as at 31 December 2005 are as follows:

Name	Principal activities	Country of incorporation and business	Effective equity interest held by the Group 2005	Effective equity interest held by the Group 2004	Cost of investment by the Company 2005	Cost of investment by the Company 2004
			%	%	$	$
			Balance brought forward		9,658,591	8,572,075
Held by the Company						
T Qian Hu Marketing Co Ltd	Distribution of aquarium and pet accessories	Thailand	74◆	74◆	148,262	148,262
T Thai Qian Hu Company Limited	Trading of ornamental fish	Thailand	60	60	121,554	121,554
T NNTL (Thailand) Limited	Investment holding	Thailand	49@	49@	30,999	30,999
T PT Qian Hu Aquarium and Pets Indonesia	Trading and distribution of ornamental fish and aquarium and pet accessories	Indonesia	–@@	55	–	475,000
Held through subsidiaries						
T Qian Hu The Pet Family (M) Sdn Bhd	Trading of ornamental fish and aquarium accessories	Malaysia	100	100	–	–
# Qian Hu The Pet Family (KK) Sdn Bhd	Trading of ornamental fish and aquarium accessories	Malaysia	65	–	–	–
					9,959,406	9,347,890

* Audited by Ernst & Young, Singapore.

\# Audited by Cheng & Co.

T 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, NNTL (Thailand) Limited.

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

** Shanghai Qian Hu Aquarium and Pets Co., Ltd was incorporated on 17 December 2004 with a registered capital of US$650,000. The Company has not made any capital contribution into this subsidiary as at 31 December 2004.

\#\# The Company increased its equity interest in Guangzhou Qian Hu Aquarium and Pets Accessories Manufacturing Co., Ltd without incurring additional cost.

@@ PT Qian Hu Aquarium and Pets Indonesia was disposed of during the year.

(In Singapore dollars)

5. Investments in subsidiaries (cont'd)

(c) During the financial year, one of the subsidiaries, Kim Kang Aquaculture Sdn Bhd, incorporated a wholly-owned subsidiary, Qian Hu The Pet Family (KK) Sdn Bhd, with an authorised and paid up capital of RM100,000 and RM3 respectively.

6. Investments in associates

(a) These comprise:

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Unquoted equity investments, at cost				
As at 1 January	–	66,444	28,722	28,722
Share of post-acquisition losses	–	(66,444)	–	–
As at 31 December	–	–	28,722	28,722

(b) Details of the associates as at 31 December 2005 are as follows:

Name	Principal activities	Country of incorporation and business	Effective equity interest held by the Group	
			2005	2004
			%	%
Held by the Company				
Jin Jien Hsing Enterprise Co., Ltd	Distribution of pet food and accessories	Republic of China	50	50
Held through a subsidiary				
PLC Pet Safari (Kuala Lumpur) Sdn Bhd	Properties management and investment	Malaysia	– #	49

This entity was disposed of during the year.

7. Intangible assets

These comprise:

(i) Trademarks / customer acquisition costs which 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 which 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 which represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired.

	Trademarks / customer acquisition costs $	Product listing fees $	Goodwill on consolidation $	Total $
Group				
At cost				
As at 1 January 2004	630,281	40,440	815,898	1,486,619
Additions	9,433	67,902	1,054,967	1,132,302
Translation differences	(808)	–	–	(808)
As at 31 December 2004 and 1 January 2005	638,906	108,342	1,870,865	2,618,113
Elimination of accumulated amortisation	–	–	(131,795)	(131,795)
Additions	34,460	54,521	–	88,981
Translation differences	404	–	–	404
As at 31 December 2005	673,770	162,863	1,739,070	2,575,703
Accumulated amortisation and impairment losses				
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 differences	(484)	–	–	(484)
As at 31 December 2004 and 1 January 2005	593,086	47,923	131,795	772,804
Elimination of accumulated amortisation	–	–	(131,795)	(131,795)
Amortisation for the year	2,870	35,202	–	38,072
Translation differences	339	–	–	339
As at 31 December 2005	596,295	83,125	–	679,420
Net carrying amount				
As at 31 December 2005	77,475	79,738	1,739,070	1,896,283
As at 31 December 2004	45,820	60,419	1,739,070	1,845,309

(In Singapore dollars)

7. Intangible assets (cont'd)

	Trademarks / customer acquisition costs	Product listing fees	Total
	$	$	$
Company			
At cost			
As at 1 January 2004	612,031	40,440	652,471
Additions	9,433	67,902	77,335
As at 31 December 2004 and 1 January 2005	621,464	108,342	729,806
Additions	34,460	54,521	88,981
As at 31 December 2005	655,924	162,863	818,787
Accumulated amortisation and impairment losses			
As at 1 January 2004	539,029	34,747	573,776
Amortisation for the year	39,420	13,176	52,596
As at 31 December 2004 and 1 January 2005	578,449	47,923	626,372
Amortisation for the year	–	35,202	35,202
As at 31 December 2005	578,449	83,125	661,574
Net carrying amount			
As at 31 December 2005	77,475	79,738	157,213
As at 31 December 2004	43,015	60,419	103,434

As from 1 January 2005, the date of adoption of FRS 103, goodwill on consolidation was no longer amortised but is now subject to annual impairment testing. For the financial year ended 31 December 2004, goodwill on consolidation was amortised evenly over management's estimate of its useful life of 20 years.

On adoption of the revised FRS 38, trademarks / customer acquisition costs are determined to have indefinite lives. Accordingly, the carrying amount as at 1 January 2005 is no longer amortised, but is now subject to annual impairment testing.

The remaining amortisation period for product listing fees ranges from 2 to 3 years.

7. Intangible assets (cont'd)

Impairment testing of goodwill on consolidation and trademarks/customer acquisition costs

Goodwill on consolidation arose from the acquisition of Kim Kang Aquaculture Sdn Bhd in financial year 2003, whose principal business activities are those relating to the breeding and trading of ornamental fish.

Trademarks / customer acquisition costs are costs paid for the acquisition of two brands of pet food.

The recoverable amounts of the above balances are determined based on value in use calculations, using cash flow projections based on financial budgets approved by management covering a five-year period. Cash flow projections beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business activities.

Key assumptions used for impairment testing

The following describes the key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill and trademarks / customer acquisitions costs according to the respective business segments.

	Fish	Pet food
Growth rate	17%	20%
Discount rate	5.5%	5.3%

Management determined the weighted average growth rates based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business activities.

8. Inventories

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Fish	6,907,068	4,002,706	2,292,445	1,484,260
Accessories	13,103,720	15,842,868	3,482,171	4,057,833
Finished goods - plastic products	413,224	382,232	–	–
Raw materials - plastic products	208,227	106,149	–	–
	20,632,239	20,333,955	5,774,616	5,542,093
Less: Allowance for inventory obsolescence	(424,109)	(424,109)	(330,319)	(330,319)
	20,208,130	19,909,846	5,444,297	5,211,774

(In Singapore dollars)

8. Inventories (cont'd)

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

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
As at 1 January	424,109	450,577	330,319	356,787
Amount written off against allowance made	–	(26,468)	–	(26,468)
As at 31 December	424,109	424,109	330,319	330,319

9. Breeder stocks

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

10. Trade receivables

Trade receivables	16,217,578	14,673,808	8,120,935	7,386,046
Less: Allowance for doubtful trade receivables	(1,091,719)	(999,384)	(814,876)	(700,671)
As at 31 December	15,125,859	13,674,424	7,306,059	6,685,375

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

As at 1 January	999,384	787,710	700,671	511,060
Allowance made during the year	259,885	384,659	150,242	256,179
Amount written off against allowance made	(170,919)	(172,985)	(36,037)	(66,568)
Translation differences	3,369	–	–	–
As at 31 December	1,091,719	999,384	814,876	700,671

The Group's primary exposure to credit risk arises through its trade receivables. Concentration of credit risk relating to trade receivables is limited due to the Group's many varied customers. These customers are internationally dispersed, engage in a wide spectrum of manufacturing and distribution activities, and sell in a variety of end markets. The Group's historical experience in the collection of trade receivables falls within the recorded allowance. Due to these factors, management believes that no additional credit risk beyond the amounts provided for collection losses is inherent in the Group's trade receivables.

11. Other receivables, deposits and prepayments

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Deposits	426,399	346,759	65,995	34,330
Prepayments	285,044	247,836	72,173	76,819
Advances to employees	3,502	2,631	–	–
Advances to suppliers	–	535,608	–	–
Tax recoverable	500,001	–	–	–
Other receivables	584,436	659,642	196,465	169,035
	1,799,382	1,792,476	334,633	280,184

12. Due from (to) subsidiaries (trade)

These amounts are unsecured, interest-free and are repayable on demand.

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

These amounts are unsecured, interest-free and are repayable on demand.

14. Due from associates (trade)

Due from associates	708,695	874,471	464,614	643,627
Less: Allowance for amount due from associates	(444,081)	(80,000)	(200,000)	(80,000)
	264,614	794,471	264,614	563,627

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

As at 1 January	80,000	–	80,000	–
Allowance made during the year	364,081	80,000	120,000	80,000
As at 31 December	444,081	80,000	200,000	80,000

These amounts are unsecured, interest-free and are repayable on demand.

15. Fixed deposits

The fixed deposits are pledged to a financial institution to secure performance guarantees issued by that financial institution. They bear average effective interest rate of 1.18% (2004: 0.94%) per annum with maturity of one year from the end of year.

(In Singapore dollars)

16. Bills payable to banks and bank overdraft

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Bills payable				
Secured	1,469,650	395,712	–	–
Unsecured	1,240,704	893,716	1,240,704	893,716
	2,710,354	1,289,428	1,240,704	893,716

As at 31 December 2005, the average effective interest rate of bills payable of the Group and of the Company is 5.25% (2004: 5.25%) per annum. These bills mature within 1 to 3 months from the year end.

As at 31 December 2005, the average effective interest rate of bank overdraft of the Group is 7.5% (2004: 7.5%) per annum. The bank overdraft is repayable on demand.

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

17. Other payables and accruals

Accrued operating expenses	1,520,602	1,250,377	1,039,661	902,817
Other payables	1,990,021	1,648,734	1,461,545	1,394,718
	3,510,623	2,899,111	2,501,206	2,297,535

Other payables are interest-free and have an average term of three months.

18. Finance lease obligations

Group

2005

	Minimum lease payments	Interest	Present value of payments
	$	$	$
Payable:			
After 1 year but within 5 years	253,580	(39,572)	214,008
Within 1 year	305,669	(44,817)	260,852
	559,249	(84,389)	474,860

2004

	Minimum lease payments	Interest	Present value of payments
Payable:			
After 1 year but within 5 years	522,240	(85,668)	436,572
Within 1 year	375,727	(55,024)	320,703
	897,967	(140,692)	757,275

18. Finance lease obligations (cont'd)

Company

2005

	Minimum lease payments	Interest	Present value of payments
	$	$	$
Payable:			
After 1 year but within 5 years	121,254	(20,874)	100,380
Within 1 year	144,408	(24,912)	119,496
	265,662	(45,786)	219,876

2004

	Minimum lease payments	Interest	Present value of payments
	$	$	$
Payable:			
After 1 year but within 5 years	265,933	(48,323)	217,610
Within 1 year	161,909	(28,354)	133,555
	427,842	(76,677)	351,165

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 in the Group's and the Company's finance lease obligations are 7.28% and 6.71% (2004: 7.30% and 6.82%) per annum respectively.

19. Bank term loans

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Due within 1 year:				
- Singapore dollars short-term loans (unsecured)	6,200,000	7,295,000	6,200,000	7,295,000
- Malaysian Ringgit long-term loans, current portion (secured)	160,808	145,082	–	–
	6,360,808	7,440,082	6,200,000	7,295,000
Due after 1 year:				
- Malaysian Ringgit long-term loans (secured)	906,307	1,045,891	–	–
Total	7,267,115	8,485,973	6,200,000	7,295,000

(In Singapore dollars)

19. Bank term loans (cont'd)

The unsecured short-term loans are revolving bank loans which bear interest at rates ranging from 3.81% to 5.31% (2004: 3.13% to 3.94%) per annum.

The secured long-term loans comprise:

- an 8-year bank loan of $1.1 million, bears interest at 7.5% (2004: 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% (2004: 7.75%) per annum and is repayable in 84 instalments commencing January 2005.

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

20. Share capital

Company

	2005 No. of shares	2004 No. of shares	2005 $	2004 $
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	128,211,238	106,268,469	12,821,124	10,626,847
Issue of ordinary shares of $0.10 each	661,696	643,482	66,169	64,348
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	128,872,934	128,211,238	12,887,293	12,821,124

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

During the financial year, the Company issued 661,696 ordinary shares at a premium of $0.86 per share as remaining purchase consideration for the acquisition of a subsidiary made in financial year 2003.

The Company has an employee share option plan (as set out in Note 31) under which options to subscribe for the Company's ordinary shares have been granted to employees.

21. Reserves

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Share premium				
As at 1 January	5,541,092	7,281,785	5,541,092	7,281,785
Arising from the issue of Nil (2004: 228,000) ordinary shares upon exercise of share options at a premium of $Nil (2004: $0.14) per share	–	31,920	–	31,920
Arising from the issue of 661,696 (2004: 415,482) ordinary shares for the acquisition of a subsidiary at a premium of $0.86 (2004: $0.86) per share	569,059	357,316	569,059	357,316
Capitalisation of share premium account for bonus issue of shares	–	(2,129,929)	–	(2,129,929)
As at 31 December	6,110,151	5,541,092	6,110,151	5,541,092
Revenue reserve				
As at 1 January	19,944,854	18,828,755	15,087,091	13,559,124
Net profit for the year	2,030,289	1,627,282	1,687,633	2,039,150
Dividends (Note 28)	–	(511,183)	–	(511,183)
As at 31 December	21,975,143	19,944,854	16,774,724	15,087,091
Translation reserve				
As at 1 January	(677,829)	(186,303)	–	–
Currency translation differences	230,027	(491,526)	–	–
As at 31 December	(447,802)	(677,829)	–	–
Total	27,637,492	24,808,117	22,884,875	20,628,183

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.

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

(In Singapore dollars)

22. Turnover

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Sales of goods				
- Fish	33,460,946	31,179,839	22,652,416	20,742,151
- Accessories	25,635,293	27,306,844	15,130,539	18,436,127
- Plastics	7,170,404	7,005,339	–	–
	66,266,643	65,492,022	37,782,955	39,178,278

23. Profit from operations

This is determined after charging (crediting) the following:

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Allowance for				
- doubtful trade receivables (Note 10)	259,885	384,659	150,242	256,179
- due from associates (Note 14)	364,081	80,000	120,000	80,000
- doubtful non-trade receivables written back	–	(6,179)	–	(6,179)
Auditors' remuneration				
- auditors of the Company	65,500	66,000	54,000	55,000
- other auditors	16,438	12,437	–	–
Non-audit fees				
- auditors of the Company	23,100	13,933	18,300	8,850
- other auditors	35,000	15,000	35,000	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)	662,496	530,535	662,496	530,535
- directors of subsidiaries	601,994	610,188	–	–

23. Profit from operations (cont'd)

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Amortisation of				
- trademarks / customer acquisition costs (Note 7)	2,870	43,602	–	39,420
- product listing fees (Note 7)	35,202	13,176	35,202	13,176
- goodwill on consolidation (Note 7)	–	91,000	–	–
- land use rights	–	328	–	–
Bad trade receivables written off	24,195	15,463	11,561	1,057
Depreciation of				
- property, plant and equipment (Note 3)	2,145,890	1,936,165	647,329	692,233
- brooder stocks (Note 4)	165,830	146,322	29,190	29,190
Property, plant and equipment written off	1,059	–	–	–
Loss (gain) on disposal of				
- property, plant and equipment	11,935	2,384	(14,286)	9,810
- subsidiaries	30,088	55,221	(248,577)	127,209
Operating lease expenses	1,082,843	693,506	110,468	107,048
Personnel expenses (Note 25)	8,992,873	8,910,364	4,852,060	4,851,088
Exchange (gain) loss, net	(197,496)	187,118	(149,577)	(4,190)
Gain arising from changes in fair values less estimated point-of-sale costs attributable to physical changes of breeder stocks (Note 9)	–	(228,110)	–	(57,800)

24. Directors' remuneration

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

	2005	2004
$500,000 and above	–	–
$250,000 to $499,999	–	–
Below $250,000	7	7
	7	7

(In Singapore dollars)

24. Directors' remuneration (cont'd)

Summary of compensation tables for the year ended 31 December 2005 and 2004:

Name of director	Salary *	Bonus *	Directors' fees	Total
	$	$	$	$
2005				
Kenny Yap Kim Lee	180,600	–	–	180,600
Alvin Yap Ah Seng	163,800	–	–	163,800
Andy Yap Ah Siong	163,800	–	–	163,800
Lai Chin Yee	137,796	16,500	–	154,296
Robson Lee Teck Leng	–	–	10,000	10,000
Chang Weng Leong	–	–	10,000	10,000
Tan Tow Ee	–	–	10,000	10,000
Total	645,996	16,500	30,000	692,496
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
Lai Chin Yee (appointed on 1.11.2004)	31,730	–	–	31,730
Robson Lee Teck Leng	–	–	10,000	10,000
Chang Weng Leong	–	–	10,000	10,000
Tan Tow Ee	–	–	10,000	10,000
Total	530,535	–	30,000	560,535

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

25. Personnel expenses

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Salaries and bonus	8,006,953	7,896,068	4,374,206	4,374,854
Provident Fund contributions	598,421	602,762	330,718	362,397
Staff welfare benefits	387,499	411,534	147,136	113,837
	8,992,873	8,910,364	4,852,060	4,851,088
Number of persons employed at the end of the financial year	603	766	121	126

Included in personnel expenses is directors' remuneration of the Group and of the Company amounting to $1,264,490 and $662,496 (2004: $1,140,723 and $530,535) respectively.

26. Financial (expenses) income

Interest expenses				
- bank term loans	(391,585)	(196,605)	(295,435)	(118,540)
- bank overdrafts	–	(22,238)	–	(16,727)
- bills payable	(82,843)	(88,300)	(40,889)	(75,686)
- hire purchase	(41,929)	(72,464)	(30,042)	(33,475)
	(516,357)	(379,607)	(366,366)	(244,428)
Interest income				
- others	6,084	2,916	–	–

(In Singapore dollars)

27. Taxation

(a) *Major components of income tax expense*

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Current tax				
- current year	869,966	979,209	320,000	350,000
- (over) under provision in respect of prior year	(385,593)	30,182	40,000	30,000
Deferred tax				
- movement in temporary differences	406,728	231,805	–	–
- under (over) provision in respect of prior year	269,532	(29,000)	–	(23,000)
	1,160,633	1,212,196	360,000	357,000

(b) *Reconciliation between tax expense and accounting profit*

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

	Group 2005	Group 2004	Company 2005	Company 2004
Accounting profit before taxation	4,088,338	3,488,199	2,047,633	2,396,150
Income tax at the applicable tax rate of 20% (2004: 20%) to profits	817,668	697,640	409,527	479,230
Effect of expenses not deductible for tax purposes	39,602	57,046	36,282	22,476
Income not subject to taxation	(21,000)	(21,000)	(10,500)	(10,500)
Tax savings arising from Development and Expansion Incentive*	(113,626)	(191,941)	(113,626)	(191,941)
Tax effect of different tax rate in other countries	118,263	114,619	–	–
Net (over) under provision in respect of prior year	(116,061)	30,182	40,000	30,000
Effect of reduction in tax rates	–	(29,000)	–	(23,000)
Deferred tax assets not recognised	463,631	617,389	–	–
Others	(27,844)	(62,739)	(1,683)	50,735
Tax expense	1,160,633	1,212,196	360,000	357,000

* 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.

27. Taxation (cont'd)

(c) Deferred taxation

Deferred taxation as at 31 December 2005 relate to the following:

	Group		Company	
	2005	2004	2005	2004
	$	$	$	$
Deferred tax liabilities				
Tax over book depreciation	1,367,875	849,439	196,035	259,000
Gain arising from changes in fair values less estimated point-of-sale costs attributable to physical changes of breeder stocks	399,160	399,000	49,160	11,000
	1,767,035	1,248,439	245,195	270,000
Deferred tax assets				
Provisions	(10,195)	(81,000)	(10,195)	(35,000)
Net deferred tax liabilities	1,756,840	1,167,439	235,000	235,000

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 the 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 and unabsorbed capital allowances of approximately $2,898,581 (2004: $1,787,570) and $385,908 (2004: $263,744) that are 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 have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

28. Dividends

There was no final dividend declared for the year ended 31 December 2004.

The directors now propose a first and final dividend of 0.5 cents per share less tax of 20% amounting to $515,492 in respect of the year ended 31 December 2005 subject to approval at the Annual General Meeting of the Company. The proposed dividend has not been recognised as a liability at year end in accordance with FRS 10 – Events after the Balance Sheet Date. There are no income tax consequences attached to the dividend proposed by the Company.

A final dividend of 0.6 cents per share less tax of 20% amounting to $511,183 in respect of the year ended 31 December 2003 was paid in 2004.

(In Singapore dollars)

29. Earnings per share

(a) *Basic earnings per share*

Basic earnings per share is calculated by dividing the consolidated profit attributable to equity holders of the Company of $2,030,289 (2004: $1,627,282) by the weighted average number of ordinary shares outstanding during the year.

Number of shares

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

	2005	2004
Issued ordinary shares at 1 January	128,211,238	106,268,469
Adjustments for bonus issue of shares	–	21,299,287
Weighted average number of ordinary shares issued during the year	134,152	448,984
Weighted average number of ordinary shares at 31 December	128,345,390	128,016,740

(b) *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 Post-IPO Employees' Share Option Scheme and their exercise prices are set out in the Directors' Report and Note 31 to the financial statements. These share options have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the current financial year. The average fair value of one ordinary share during financial year 2005 was $0.29 (2004: $0.55) per share.

Number of shares

The weighted average number of ordinary shares adjusted for the unissued shares under option is as follows:

	2005	2004
Weighted average number of ordinary shares (used in the calculation of basic earnings per share)	128,345,390	128,016,740
Weighted average number of ordinary shares under option	1,266,345	1,446,954
Number of shares that would have been issued at fair value	(1,266,345)	(1,435,867)
Weighted average number of ordinary shares (diluted)	128,345,390	128,027,827

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

30. Related party transactions

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(a) Sale and purchase of goods and services

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	
	2005	2004	2005	2004
	$	$	$	$
(i) Income				
Sales to subsidiaries	–	–	6,761,642	8,522,579
Management fees received from a subsidiary	–	–	168,000	168,000
(ii) Expenses				
Purchases from subsidiaries	–	–	7,111,075	3,720,839
Fees paid to a firm of which a director is a member	11,512	93,500	11,512	93,500
Consultancy fee paid to a company in which a director has a substantial interest	7,550	36,250	7,550	32,750

(b) Compensation of key management personnel

	Group	
	2005	2004
	$	$
Short-term employee benefits		
• Directors of the Company (Note 24)	662,496	530,535
• Other key management personnel	743,008	735,478
	1,405,504	1,266,013

The remuneration of key management personnel are determined by the remuneration committee having regard to the performance of individuals and market trends.

31. Employee benefits

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:

(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.

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 options shall only be granted on or after the third market day on which an announcement of 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.

On 1 August 2002, 1,620,000 options were granted to eligible employees of the Group, including associates of controlling shareholders of the Company, to subscribe for ordinary shares of the Company of $0.10 each at an exercise price of $0.59 per share, exercisable from 1 August 2004 to 31 July 2012.

There were no options (2004: Nil) granted and 120,000 (2004: 134,000) options were cancelled due to resignation of employees in the current financial year. The number of options outstanding as at end of the financial year were 1,218,000 (2004: 1,338,000).

32. Commitments

As at 31 December 2005, 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	
	2005	2004	2005	2004
	$	$	$	$
Future minimum lease payments				
- Within 1 year	295,749	277,000	101,084	72,000
- After 1 year but within 5 years	367,114	501,000	302,226	228,230
- After 5 years	209,168	118,000	209,168	118,000
	872,031	896,000	612,478	418,230

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 $5.1 million (2004: $4.0 million).

As at 31 December 2005, $2,974,351 (2004: $1,586,685) had been utilised and is reflected in Notes 16 and 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:

(i) Fish - farming, breeding, distribution and trading of ornamental fish
(ii) Accessories - manufacturing and distribution of aquarium and pet accessories
(iii) Plastics - manufacturing of plastic bags

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

2005	Fish	Accessories	Plastics	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000
Turnover					
External sales	33,461	25,635	7,171	–	66,267
Inter-segment sales	6,678	7,393	154	(14,225)	–
Total sales	40,139	33,028	7,325	(14,225)	66,267
Results					
Segment results	4,593	621	434	134	5,782
Unallocated expenses					(1,183)
					4,599
Financial expenses (net)					(510)
Share of losses of associates					–
Taxation					(1,161)
Profit for the year					2,928
Assets and liabilities					
Assets	36,781	26,283	3,152	–	66,216
Unallocated assets					2,205
Total assets					68,421
Liabilities	8,098	2,803	1,119	–	12,020
Unallocated liabilities					10,706
Total liabilities					22,726
Other information					
Capital expenditure	3,902	673	78	–	4,653
Depreciation and amortisation	1,074	923	353	–	2,350
Other non-cash expenses	541	39	111	–	691

34. Segment information (cont'd)

2004	Fish	Accessories	Plastics	Eliminations	Group
	$'000	$'000	$'000	$'000	$'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					(1,266)
					3,865
Financial expenses (net)					(377)
Share of losses of associates					(66)
Taxation					(1,212)
Profit for the year					2,210
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

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	
	2005	2004	2005	2004	2005	2004
	$'000	$'000	$'000	$'000	$'000	$'000
Singapore	21,079	22,436	24,262	24,141	281	291
Other Asian countries	30,496	29,213	44,159	40,741	4,372	2,726
Europe	11,547	10,881	–	–	–	–
Others	3,145	2,962	–	–	–	–
Total	66,267	65,492	68,421	64,882	4,653	3,017

35. Financial risk management objectives and policies

Risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved.

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's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates.

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

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.

Credit risk

Credit risk is the potential financial loss resulting from the failure of a customer or a counterparty to settle its financial and contractual obligations to the Group, as and when they fall due.

The Group has established credit limits for customers and monitors their balances. Cash and fixed deposits are placed with banks and financial institutions which are regulated.

It is the Group's policy to sell to a diversity of creditworthy customers. At the balance sheet date, there is no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of cash and cash equivalents and trade and other receivables in the balance sheets.

Foreign currency risk

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

35. Financial risk management objectives and polices (cont'd)

The Group does not have any formal hedging policy against foreign exchange fluctuations. However, the Group continuously monitors the exchange rates of the major currencies and enters 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.

36. Fair value of financial instruments

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

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Bank balances, other liquid funds and short-term receivables

The carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Quoted investments

The fair values of quoted investments are estimated based on quoted market prices for these investments.

Short-term borrowings and other current payables

The carrying amounts approximate fair values because of the short period to maturity of these instruments.

Bank term loans and finance lease obligations

The fair values of these financial liabilities are estimated using discounted cash flows analysis, based on current incremental lending rates for similar types of lending and borrowing arrangements.

A comparison of carrying amount and fair value of these financial liabilities that are carried in the financial statements at other than fair value as at 31 December 2005 is set out below:

	Group				Company			
	Carrying amount		Estimated fair value		Carrying amount		Estimated fair value	
	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$
Financial liabilities								
Finance lease obligations	474,860	757,275	442,931	703,065	219,876	351,165	209,106	331,585
Bank term loans	7,267,115	8,485,973	7,021,520	8,188,475	6,200,000	7,295,000	6,153,493	7,235,000

37. 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.

38. Authorisation of financial statements

The financial statements of the Company for the year ended 31 December 2005 were authorised for issue in accordance with a directors' resolution dated 12 January 2006.

STATISTICS OF SHAREHOLERS

as at 1 February 2006

Authorised Share Capital	:	S$20,000,000
Issued and fully Paid-up Capital	:	S$12,887,293
Class of Shares	:	Ordinary share of S$0.10 each
Number of Shares	:	128,872,934

Analysis of Shareholders

Range of Shareholdings	No. of Shareholders	%	Shares	%
1 - 999	109	7.99	42,219	0.03
1,000 - 10,000	670	49.08	3,253,389	2.53
10,001 - 1,000,000	569	41.68	29,887,625	23.19
1,000,001 and above	17	1.25	95,689,701	74.25
Total	1,365	100.00	128,872,934	100.00

Substantial 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**	
Name of Shareholders	No. of Shares	%	No. of Shares	%	No. of Shares	%
1. Qian Hu Holdings Pte Ltd	–	–	36,320,842	28.18	–	–
2. Yap Ah Seng Alvin*	6,229,872	4.83	–	–	39,600	0.031
3. Yap Ah Siong Andy*	6,229,872	4.83	–	–	178,200	0.138
4. Yap Kim Choon*	6,229,872	4.83	–	–	–	–
5. Yap Kim Lee Kenny*	5,637,126	4.37	–	–	–	–
6. Yap Hock Huat*	5,344,872	4.15	–	–	84,360	0.065
7. Yap Ping Heng*	5,229,872	4.06	–	–	30,000	0.023
8. Yap Kim Chuan*	4,003,870	3.10	2,226,002	1.73	–	–

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

** Held by spouse

Twenty Largest Shareholders

	Name of Shareholders	No. of Shares	%
1.	HSBC (Singapore) Nominees Pte Ltd	26,344,602	20.44
2.	DBS Nominees Pte Ltd	10,625,800	8.25
3.	Yap Ah Seng Alvin	6,229,872	4.83
4.	Yap Ah Siong Andy	6,229,872	4.83
5.	Yap Kim Choon	6,229,872	4.83
6.	Yap Kim Lee Kenny	5,637,126	4.37
7.	Yap Hock Huat	5,344,872	4.15
8.	Yap Ping Heng	5,229,872	4.06
9.	HL Bank Nominees (S) Pte Ltd	4,194,150	3.26
10.	Yap Kim Chuan	4,003,870	3.11
11.	Hong Leong Finance Nominees Pte Ltd	3,513,453	2.73
12.	Yap Hey Cha	3,001,440	2.33
13.	Koh Guat Lee	2,434,849	1.89
14.	Goh Siak Ngan	2,322,851	1.80
15.	Ang Kim Sua	2,155,200	1.67
16.	BNP Paribas Nominees Singapore Pte Ltd	1,134,000	0.88
17.	Lim Peng Chuan	1,058,000	0.82
18.	Ng Wah Hong	830,482	0.65
19.	CIMB-GK Securities Pte Ltd	712,001	0.55
20.	Lim Boo Hua	705,400	0.55
	Total	97,937,584	76.00

Based on the information provided, to the best knowledge of the Directors and the substantial shareholders of the Company, 26.64% of the issued share capital of the Company was held in the hands of the public as at 1 February 2006. Accordingly, Rule 723 of the Singapore Exchange Listing Manual has been compiled with.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Seventh Annual General Meeting of the Company will be held at No. 71 Jalan Lekar, Singapore 698950 on Friday, 10 March 2006 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 2005 and the Auditors' Report thereon. [Resolution 1]

2 To declare a first and final dividend of 0.5 cents per ordinary share less 20% Singapore income tax for the financial year ended 31 December 2005. [Resolution 2]

3 To re-elect Mr Kenny Yap Kim Lee, 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 Mr Tan Tow Ee who is retiring by rotation in accordance with Article 89 of the Company's Articles of Association, as Director of the Company. [Resolution 4]
[See Explanatory Note (a)]

5 To approve the sum of $30,000/- as Directors' fees for the financial year ended 31 December 2005 (2004: $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.

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 (b)] [Resolution 7]

By Order of the Board

Lai Chin Yee
Yeoh Kar Choo Sharon
Company Secretaries
Singapore

22 February 2006

Explanatory Notes:

(a) Mr Tan Tow Ee, if re-elected, will remain as a member of the Company's Audit Committee, Remuneration Committee and Nominating Committee and will also continue to be the Chairman of the Nominating Committee. Mr Tan Tow Ee will be considered as independent director of the Company.

(b) 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

Note:

A member entitled to attend and vote at the Annual General Meeting may appoint no 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 less than 48 hours before the time set for the Annual General Meeting.

Notice of Books Closure and Dividend Payment Date

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of the Company will be closed on 22 March 2006 for the preparation of dividend warrants. Duly completed registrable transfers received by the Company's Share Registrar, M & C Services Private Limited, 138 Robinson Road #17-00 The Corporate Office, Singapore 068906 up to 5.00 p.m. on 21 March 2006 will be registered to determine shareholders' entitlements to the said dividend.

Members whose Securities Accounts with The Central Depository (Pte) Ltd are credited with shares at 5.00 p.m. on 21 March 2006 will be entitled to the proposed dividend. The proposed dividend, if approved by the members at the Seventh Annual General Meeting to be held on 10 March 2006, will be paid on 3 April 2006.

By Order of the Board

Lai Chin Yee
Yeoh Kar Choo Sharon
Company Secretaries
Singapore

22 February 2006

IMPORTANT FOR CPF INVESTORS ONLY:

1. This Annual Report is forwarded to you at the request of your CPF Approved Nominee and is sent SOLELY FOR INFORMATION ONLY.
2. This Proxy Form is therefore not valid for use by CPF investors and shall not be effective for all intents and purposes if used or purported to be used by them.
3. CPF Investors who wish to attend the Annual General Meeting as OBSERVERS have to submit their requests through their respective Agent banks so that their Agent Banks may register with the Company Secretary of Qian Hu Corporation Limited.

PROXY FORM

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

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 / proxies 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, 10 March 2006 at 11.00 a.m. and at any adjournment thereof.

I / We have directed 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 may vote or abstain from voting at his / their discretion, as he / they will on any other matters 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 2005		
2	Payment of proposed first and final dividend		
3	Re-election of Mr Kenny Yap Kim Lee as director		
4	Re-election of Mr Tan Tow Ee 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.

Total Number of Shares Held

Dated this ____________ day of

______________________ 2006

____

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.

22 February 2006

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 years, we have set up several channels to communicate with our investors and shareholders. All because we deeply value your feedback and input.

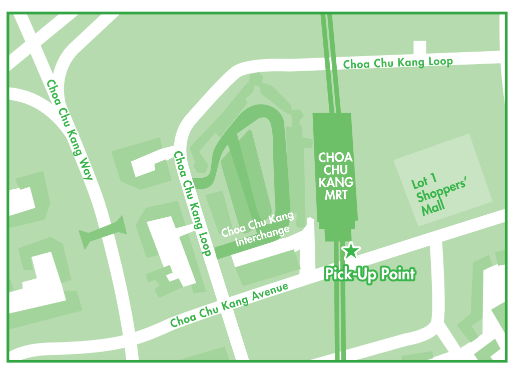
You now may channel your questions and feedback to us via the following methods:

- 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 10 March 2006. A copy of the minutes of the AGM will be posted onto our website and via SGXNET onto the SGX website.

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) on **10 March 2006**, 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.

QIAN HU CORPORATION LIMITED
COMPANY REG. NO.: 199806124N

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