



Fish Without Borders

Qian Hu Corporation Limited
Annual Report 2007

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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 500 species and varieties of ornamental fish from all around the world as well as the manufacturing and distribution of a wide range of aquarium and pets accessories.



Fish Without Borders

In the ornamental fish business, the ability to source new varieties and having a complementary, efficient distribution system is absolutely crucial. This is how Singapore, known for its excellent technology and logistics infrastructure, has managed to maintain its pole position as the world's Ornamental Fish Capital.

In 2007, Singapore exported a total of S\$100.6 million of ornamental fish to 80 countries, reinforcing once again its pole position as the world's largest producer of farm-bred ornamental fish.

Southeast Asia as a region accounts for 60% to 70% of the world's supply of ornamental fish and we believe that we are the biggest in Southeast Asia.

Qian Hu, with our supply and distribution hubs in Singapore, Malaysia, Thailand, and China, distributes to more than 70 countries across the globe. In July 2007, we acquired a 20% stake in UK-based Arcadia Products PLC for £264,000 (approximately S\$813,000) – our first in Europe. Not only will we be able to establish a base in the Continent, we will have the opportunity to manufacture Arcadia's renowned aquarium lighting products at our Guangzhou-based aquarium accessories plant which we hope to commence in FY 2008.



This year, we have selected the theme, **Fish Without Borders**, for this annual report as we wanted to communicate to you, our shareholders, that the distribution of ornamental fish and accessories is truly a global business. The way to expand our business beyond geographical boundaries is through:

- (1) Extensive distribution network
- (2) Expertise in global sourcing
- (3) A strong focus on brand-building

The Qian Hu Brand

As the only public-listed ornamental fish company in the Singapore, which incidentally is the Ornamental Fish Capital of the World, Singapore exports more than 30% of the global output, speaks volumes for the Qian Hu brand.

Increasingly, our brand, though difficult to pronounce in some countries, still recognize our trademark as synonymous for superlative quality, distribution prowess and service quality.

Over the years, Qian Hu as a corporate brand has evolved from a small company breeding guppies to a mainboard-listed regional company with global sourcing capabilities and a distribution network that spans over 70 countries.

The “Qian Hu” brand of Dragon Fish is perceived as a premium brand in Northeast China, and is experiencing strong demand from Taiwan and Japan as well. The Group’s research collaboration with Temasek Life Sciences Laboratory will continue to enable Qian Hu to increase productivity of own-bred Dragon Fish.

The Group is also the only ornamental fish and accessories company that is able to supply and service through five countries – Singapore, Malaysia, Thailand, China and more recently, United Kingdom. The distribution of aquarium and pet accessories holds greater more room for growth as this segment currently distributes to more than 20 countries only. The Group has seen rising demand for aquarium & pet accessories amongst its regional and international hubs, as well as increasing demand from its Group’s suppliers and customers from various parts of the world. It plans to expand the distribution network for pet accessories by leveraging on Qian Hu’s house brands.

Today, the Group has developed a chorus of brands for each of our main product ranges:

- **Ocean Free** for freshwater fish
- **Bark and Nature’s Gift** for dogs
- **ARISTO-CATS YI HU** for cats
- **Delikate** for small animals such as rabbits and hamsters
- **Qian Hu - The Pet Family** for retail chain stores

As at 31 December 2007, Qian Hu owns and operates 12 “Qian Hu – The Pet Family” retail chain stores throughout the region. The Group plans to add more stores, particularly in Malaysia. In addition, the Group is increasing its distribution points in China for Dragon Fish and other accessories to more than 100.

Not only is Qian Hu known for its marketing and service deliverables, the Group is also known for leading the pack in corporate transparency and excellence in governance. The first small-medium enterprise to be awarded the Singapore Quality Award in 2004, Qian Hu is continually reinventing itself to be more efficient and productive - such is the culture of excellence that permeates throughout the organization, regardless of geographical or cultural boundaries. At all of its regional and international hubs, Qian Hu is embraced as a lifestyle. Afterall, Qian Hu personifies the lifestyle of fun – it brings fun to people to all over the world, to make the world a fun place to live and savour. Keeping fish and other pets, is and will always be, a driver of relaxation to the stressed up communities of the world.

Our Business Model



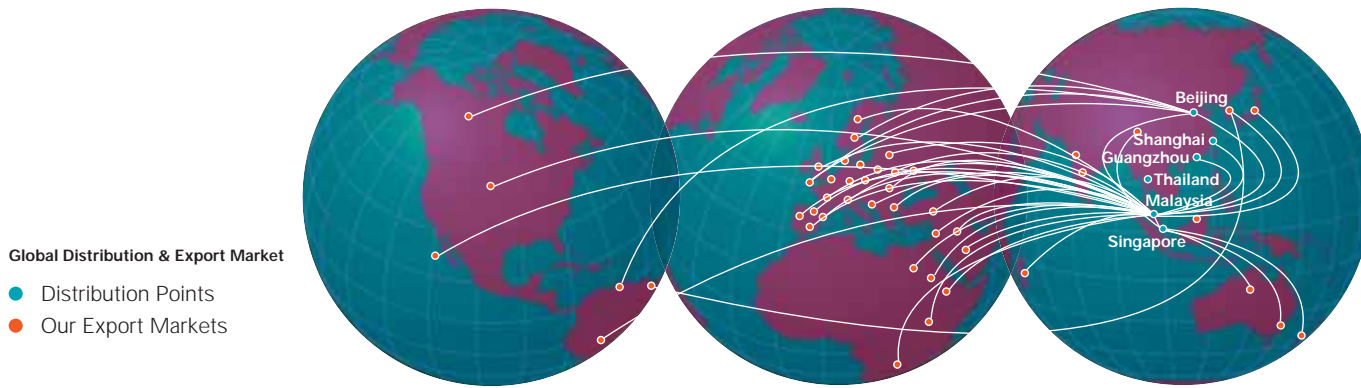
Exploring New Markets

The year in review has shown the Group's strong export sales of its ornamental fish to newly-captured markets in the Middle East, Russia and Australia. The Group will also set up more distribution points in more provinces and cities in China, where Qian Hu already has presence in the major cities of Beijing, Shanghai and Guangzhou. The Qian Hu brand of self-bred Dragon Fish and aquarium accessories are making headway into the Chinese market and in FY 2008, the Group intends to add 50 more distribution points in China.





Distribution and Export



- We export more than 500 species and varieties of ornamental fish to more than 70 countries, helping to place Singapore as the world's top exporter of ornamental fish.
- Qian Hu is the only ornamental fish company in the world which can export fish from four countries in Asia — Singapore, Malaysia, Thailand and China. We aim to be the world's top ornamental fish exporter.
- Every week, we pack thousands of bags of ornamental fish in pathogen-free and contaminant-free water and infused, shipping them worldwide.

Breeding of Dragon Fish

- Qian Hu's self-bred Dragon Fish are considered a premium brand in China, and are enjoying strong demand from Taiwan and Japan as well.
- We are jointly researching the Dragon Fish together with Temasek Life Sciences Laboratory which aims to furnish scientific data on Dragon Fish reproduction which will help increase the customized production of this fish to meet growing international demand.
- The Group recently won the tender for a 13,942 square metre land parcel in Sungei Tengah, adjacent to our existing premises, for approximately \$1 million. This will largely be used for our Dragon Fish breeding operations.



WORK SAFETY INSTRUCTIONS

MANUALS

Manufacturing of Pet Accessories

- Focusing on the export markets of Japan, Europe, Australia, and Southeast Asia, our subsidiary Guangzhou Qian Hu aims to be one of the top 3 manufacturers of aquarium accessories in China.
- Our 15,000 square metre Guangzhou manufacturing plant produces a wide variety of aquarium accessories such as PUA tanks, lightings, cabinets, air pumps, fish medication and pet foods under Qian Hu's proprietary brands. The company also serves as a contract manufacturer and distribution agent for third-party brands such as EHEIM and Arcadia.

Our Proprietary Brands

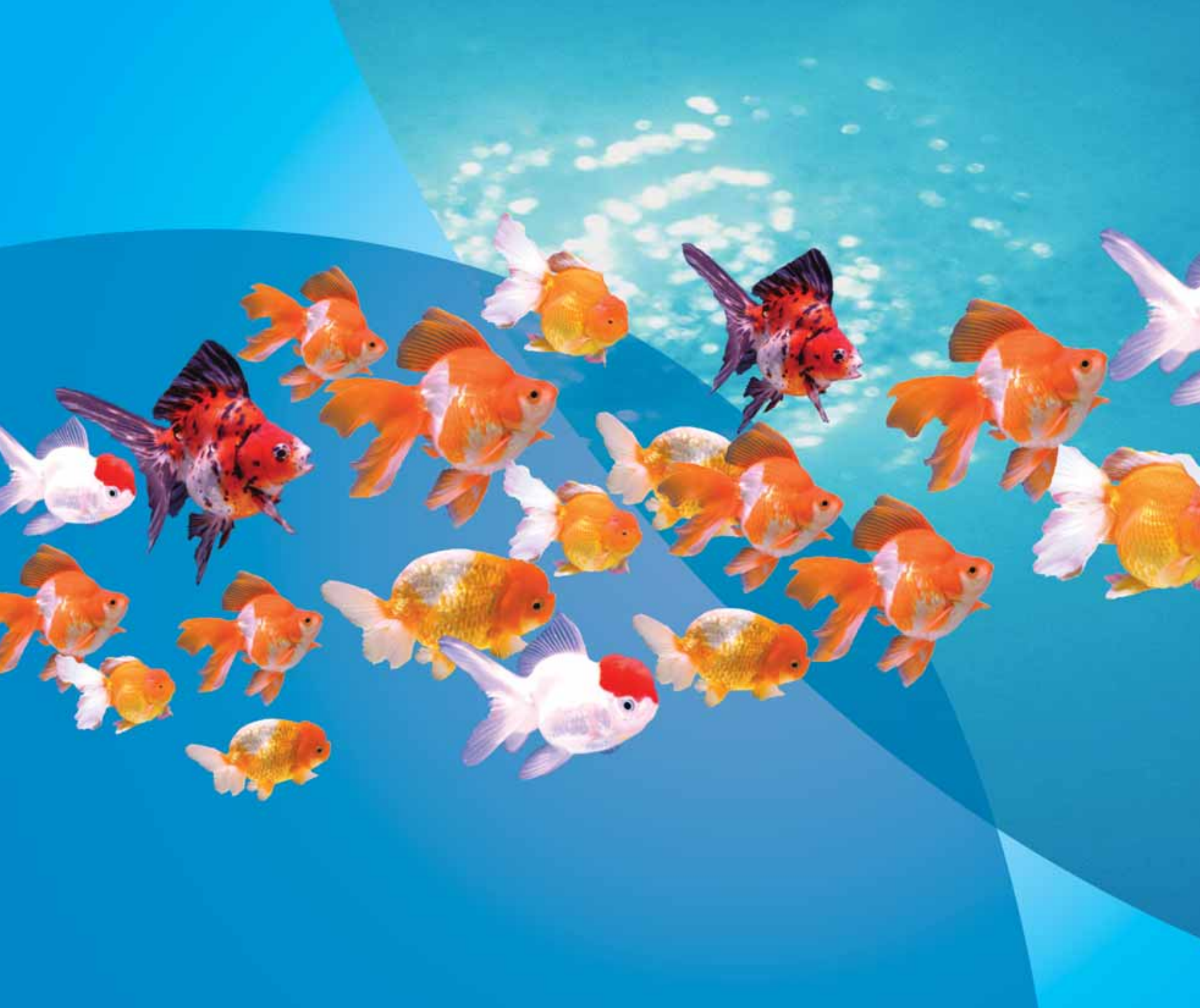
- "Ocean Free" (accessories for ornamental fish) - named the Number 1 aquarium accessories brand in Singapore by Euromonitor.
- "Delikate" (accessories for small animals such as hamsters and rabbits)
- "BARK" and "Nature's Gift" (accessories for dogs)
- "ARISTO-CATS YI HU" (accessories for cats)

Retail Chain Stores

- Operating under our brand name "Qian Hu – The Pet Family", our 12 stores in Malaysia, Thailand and China retails a wide range of ornamental fish, aquarium and pet accessories, pet foods, fish food and medicines.

Plastics Manufacturing

- Based in Woodlands, our plastics manufacturing facility produces plastic bags for our export operations, as well as to other industries in Singapore.







A stylized, handwritten signature in blue ink, consisting of several overlapping loops and lines.

Kenny Yap "The Fish"
Executive Chairman & Managing Director

Chairman's Message 主席的话

My dear shareholders

After we began restructuring our business model in 2004, a process that is best illustrated by tree pruning, we are pleased to report that Qian Hu has definitely commenced its much-anticipated turnaround in FY 2007. Healthy branches (our revenue) are growing in the right direction in all of our core businesses, and this is particularly apparent in the strong growth from our sales in Singapore and overseas which grew 8.1% and 26.3% respectively this financial year.

FY 2007 Highlights

During the year in review, the Group reported an 89.1% surge in net profit attributable to shareholders to approximately \$5.0 million on sales of \$91.7 million. This was made possible by the robust export sales of our ornamental fish to newly-captured overseas markets such as the Eastern European countries, Middle East, Russia and Australia, as well as strong demand for its Dragon Fish in China.

The Group's accessories business also experienced strong demand from both domestic and overseas markets, whilst our Guangzhou factory managed to secure more production orders from new and existing OEM customers. Since the beginning of FY 2007, our accessories business had shown substantial improvement due to higher revenue generated from an expanding distribution network, better profit margin contributions from the export of accessories to more untapped markets globally, and enhanced operational efficiency from its Guangzhou accessories manufacturing plant.

亲爱的股东们：

在2004年我们开始了“修枝”重组商业模式后，我们欣然宣布，仟湖2007财政年取得了叫人期待的业绩。我们所有核心业务的“健康枝干”（即我们的销售）正朝着正确的方向成长，尤其是新加坡与海外的销售量有着强劲的增长，在今年分别增长了8.1%与26.3%。

我们很高兴这个虽痛苦但却是必要的修枝过程已成为过去，而今我们的策略正开始萌芽。我们希望来年可以开始享受因我们努力付出而结出的果实。

2007财政年概要

在这年里，集团的净利随着销售额达9170万元而劲升了89.1%，达到约500万元。由于我们的观赏鱼开拓的全新海外市场，如东欧国家、中东、俄罗斯和澳洲的出口销售强劲，以及中国对龙鱼的高需求，都是促使销售额劲升的主因。

集团的水族与宠物器材业务在国内外市场的需求也相当强劲，而我们的广州工厂同时取得更多新的与现有OEM客户的生产订单。自2007财政年开始，我们的水族与宠物器材业务有了明显重大的进展，这是因为从扩大的分销网络所获得的收益更高、水族与宠物器材出口到更多待开发的市场取得更高的利润，以及提高广州水族与宠物器材生产工厂的生产运作效率提高的原故。

We are really pleased to see the momentum of growth gaining speed, particularly in our ornamental fish and accessories segments, as evidenced by the net margin improvement from 5.1% in FY 2006 to 6.9% in FY 2007. Going forward, whilst we see our revenue growing by exporting more ornamental fish and accessories to more countries around the world, we expect our accessories business to contribute to a faster pace of growth in profit margin. We have always believed that the accessories business will be a substantial part of the business and we are thankful that our Guangzhou production plant has started to show its potential, particularly with the demand for OEM manufacturing as well as the anticipated shift of Arcadia's production of aquarium lighting products to our Guangzhou plant later in FY 2008, and this should propel our accessories manufacturing business to a whole new level of growth.

We're really glad that the painful, but necessary, pruning process is over and our strategy is starting to bud. Hopefully we'll be able to enjoy the fruits of our labour in the years to come.

Focused on building our market capabilities

We have specially selected this year's theme Fish Without Borders to emphasise the global nature of our business, particularly, our extensive distribution network, expertise in global sourcing, and strong focus on brand-building.

Qian Hu's strength is in its ability to manage the entire supply chain from the sourcing of ornamental fish, to the breeding of high-margin Dragon Fish, research & development, manufacturing of accessories to complement the ornamental fish distribution business, right down to having direct access

我们很开心的看到集团成长的步伐正在加速，尤其是在观赏鱼和水族与宠物器材的业务，净利润率从2006年财政年的5.1%，提升至2007财政年的6.9%，便是最好的明证。迈向未来，我们看到总收入因出口更多的观赏鱼与水族与宠物器材到更多国家而增长时，我们预期水族与宠物器材业务能为集团的盈利率取得更快的增长势头。我们一直都认为水族与宠物器材业务将会是集团整体业务的一个重要部分，我们很欣慰广州的工厂已开始展现它的潜力，尤其是在对OEM的生产，以及阿卡迪亚水族灯具的全部生产在2008财政年里将交由我们的广州工厂处理，都将能推动我们的水族与宠物器材生产业务到达一个全新的成长水平。

致力于建立市场能力

我们今年精心挑选的主题是鱼无国界，主要强调仟湖业务全球化的发展，尤其是我们广大的分销网络、全球采购的专门知识，以及着重建立品牌形象。

仟湖的优势在于其具备整个供应链的管理能力，从采购观赏鱼、饲养高回报率的龙鱼、研究与开发、水族和宠物器材制造以配合观赏鱼分销业务的拓展，乃至和前线客户的直接接触。我们的观赏鱼来自世界各地，分销网络超过70个国家，水族和宠物器材则分销到超过20个国家。

我们的目标将着重于继续借助仟湖高素质及可靠服务的良好口碑，建立新的市场。目前我们已经成功打入具潜力的新市场，包括中南半岛(印度支那)，如越南，以及中东与俄罗斯。

with the front-end customers. Our ornamental fish are sourced from all over the world and exported to more than 70 countries, whilst our aquarium and pet accessories are exported to more than 20 countries.

Our focus will continue to leverage on our strong reputation for service reliability and quality, and build new markets. Already, we have made inroads into Indochina, such as Vietnam, the Middle East and Russia.

Growth in Accessories

I have always stressed on the importance of the accessories business. If you think about it, every dollar that is spent on ornamental fish, you would have to spend between four to five dollars on purchasing accessories. This has also been the main impetus for the rising demand for aquarium & pet accessories from our distribution network in Singapore, Malaysia, Thailand and China. Currently, revenue from our accessories accounted for 39% whilst ornamental fish generated about 49%. Moving ahead, we will expect to see the contribution from accessories increasing as we focus on building new markets. As our accessories are exported to more than 20 countries, there is a lot of room for growth in this business segment.

Strategic Stake in Arcadia Products PLC

On 5 July 2007, we announced the acquisition of a 20% stake in Arcadia Products PLC ("Arcadia") a manufacturer of aquarium lamps based in the United Kingdom. With a history that dates back to 1964, Arcadia has achieved a sterling reputation for its high-quality aquarium lighting products which are sold in a total of 90 specialist and general pet wholesales in the United Kingdom, and distributed to 55 countries worldwide.

水族与宠物器材业务增长

我向来强调水族与宠物器材业务的重要性。试想，消费者在购买观赏鱼后，其花费在水族与宠物器材的费用是观赏鱼的4至5倍。这刺激了我们在新加坡、马来西亚、泰国和中国分销网络中对鱼缸和宠物水族与宠物器材的需求量。目前水族与宠物器材收入占总收入的39%，而观赏鱼则占49%。展望未来，在我们建立新市场的计划下，水族与宠物器材业务的收入预料会相应的取得增长。我们的水族与宠物器材目前外销到20余个国家，这方面的业务仍然有很大的发展空间。

策略性收购阿卡迪亚产品公司股权

2007年7月5日，我们宣布收购英国水族灯具生产商阿卡迪亚产品公司(Arcadia Products PLC)的20%股权。阿卡迪亚创建于1964年，在生产高素质的水族灯具产品方面拥有很好的声誉，其产品在英国由90个专卖和一般宠物批发中心销售，并且也分销到全球55个国家。

我们初期将付26万4000英镑(约81万3000新元)收购，并同意如果阿卡迪亚在截至2008年6月30日的2008财政年的净利超过40万英镑(约123万新元)，公司将另外支付相等于拥有20%股权部分净收益的六倍总额扣除初期已付款额后的差额。

如果阿卡迪亚在2008年财政年无法达到所需的净收益目标，仟湖将在截至2009年6月30日的2009财政年，根据同一计算方式，另外支付给阿卡迪亚相关的差额。

With an initial consideration of £264,000 (approximately S\$813,000), we have agreed to pay a further consideration, amounting to 20% of 6 times the amount of NPT less the amount of Initial Consideration already paid, in the event Arcadia achieves a net profit after tax ("NPT") of not less than £400,000 (approximately S\$1.23 million) in its FY2008 ending 30 June 2008. In the event that Arcadia is unable to achieve the required NPT in FY 2008, Qian Hu will pay the Further Consideration to Arcadia calculated on the same formula for FY 2009 ending 30 June 2009, upon Arcadia achieving the required NPT in FY 2009.

We are very excited about this strategic stake in Arcadia, our second major acquisition in four years, as it marks our foray into the European aquarium and pet accessories market. Through Arcadia, we plan to set up a marketing arm in London, and further enhance our export of aquarium and pet accessories to the European continent.

Arcadia is also expected to outsource its entire production of aquarium lamps to our Guangzhou plant by FY 2008. In addition, we hope that Arcadia will significantly enhance our research and development capabilities in developing and improving aquarium and pet accessories. As our Guangzhou factory is developing more accessories products, enhancing our R&D strengths and expanding our distribution network in the European Union has become essential to the Group.

Rewarding shareholders

This year, we have delivered on our promise to add value and reward our loyal shareholders for their support of Qian Hu all these years, as well as to enlarge the capital base of the Group. On 5 June 2007, we announced

我们对阿卡迪亚的这项收购感到非常兴奋，这是我们在四年来的第二次主要收购行动，这也标志着公司开始进军欧洲水族与宠物器材市场。通过阿卡迪亚，我们计划在伦敦设立一个分销网，扩大我们在欧洲大陆的水族与宠物器材的出口。

阿卡迪亚也预计在2008财政年之前，将其水族灯具的全部生产，交由我们设在广州的工厂处理。此外，我们希望阿卡迪亚将大大地增强我们在发展与改进水族与宠物器材的研发能力。在我们的广州工厂正在发展更多的水族与宠物器材产品，以加强我们的研发能力的同时，扩大我们在欧盟的分销网络，对集团的未来发展已变得越来越重要。

回馈股东

今年，我们将履行承诺，为这些年来一直支持着我们的忠心股东增加股值与回报，同时扩大我们集团的资本金基础。2007年6月5日，我们宣布了为股东们派发一项每股特8.54分的特别中期股息。在支付现金股息的同时，我们也提出一项附加股及凭单的建议。

a special interim cash dividend of 8.54 cents less tax per ordinary share. Together with the payment of the net cash dividend, a rights cum warrant issue was proposed.

Overall Outlook

We have also begun to see Qian Hu bearing more fruit, which is represented by our strong profit growth. We expect that Year 2008 will be better than 2007.

Appreciation

Qian Hu has persevered and is once again on the growth track. I have so many people to thank – our board of directors, our staff, our business associates, as well as you, our beloved shareholders for believing in us and the Qian Hu story.

I would like to assure you that Qian Hu will not rest on its laurels – we have only just begun, and will continue to intensify the momentum of growth as we move into another exciting chapter.

Have a successful year ahead!



Kenny Yap "The Fish"

Executive Chairman & Managing Director

整体展望：

我们也开始看到仟湖因强劲的利润增长而结出更多的硕果。我们预期2008年将会比2007年更好。

致谢：

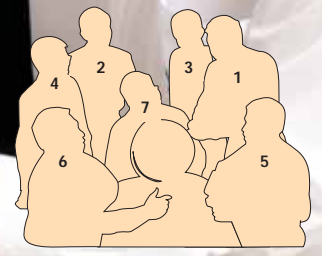
仟湖的坚持与努力，让业务一次又一次地走在增长的道路。对此，我有太多的人要感谢，包括我们的董事部成员、我们的员工、我们的商业伙伴，还有您——相信“仟湖故事”的忠诚股东们。

我要向你们保证，仟湖不会因已取得的成就而自满，我们只是刚刚开始，并且将会继续加快成长的步伐，跨越进入另一个更叫人惊喜的篇章。

愿迈向更丰收的一年！

叶金利

执行主席兼总裁



Board of Directors

1. KENNY YAP KIM LEE

EXECUTIVE CHAIRMAN AND MANAGING DIRECTOR

Mr Kenny Yap is the Executive Chairman and Managing Director of Qian Hu Corporation Limited, the only integrated ornamental fish service provider listed on the Mainboard 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 in 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). In 2007, Kenny was appointed by National Youth Council as the Chairman of the Youth Award (Entrepreneurship) Committee.

2. ALVIN YAP AH SENG

DEPUTY MANAGING DIRECTOR

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

Alvin holds a diploma in Mechanical Engineering from Singapore Polytechnic and was the Managing Partner for Yi Hu Fish Farm Trading from 1988 to 1998. In 2000, Alvin, together with Kenny Yap and Andy Yap, was one of the Top 12 Entrepreneurs of the 12th Rotary-ASME Entrepreneur of the Year as well as a finalist at the 10th Rotary-ASME Entrepreneur of the Year in 1998.

3. ANDY YAP AH SIONG

DEPUTY MANAGING DIRECTOR

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

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

4. LAI CHIN YEE

FINANCE DIRECTOR

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

5. CHANG WENG LEONG

INDEPENDENT DIRECTOR

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

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

Mr Chang holds a Masters of Science degree in Mechanical Engineering from the National University of Singapore. He is a registered Principal Auditor with the Institute of Quality Assurance (IRCA UK).

6. 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 currently manages private funds and also provides consultancy services. He has more than 15 years of professional experience working with international corporations where he was managing their sizeable investments.

He holds an 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.

7. 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.

Senior Management

CHINA

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. BOB GOH NGIAN BOON

**GENERAL MANAGER
BEIJING QIAN HU AQUARIUM AND PETS 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 was transferred to our Beijing operations in August 2007 to handle the day-to-day operations and overseas the business activities and system implementation in Beijing. 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.

THAILAND

3. 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.

4. VIRAVAT VALAISATHIEN

**GENERAL MANAGER
THAI QIAN HU COMPANY LIMITED**

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

MALAYSIA

5. GOH SIAK NGAN

**MANAGING DIRECTOR
KIM KANG AQUACULTURE SDN BHD
KIM KANG FROZEN FOOD 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.

6. 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 Verdás (Malaysia) Sdn Bhd from 1996 to 1998. He holds a diploma in Civil Engineering from the Singapore Polytechnic.

SINGAPORE

7. LEE KIM HWAT

**MANAGING DIRECTOR
QIAN HU TAT LENG PLASTIC PTE LTD**

Mr Lee has been overseeing and managing the operations and business development of Qian Hu Tat Leng for more than 13 years, and is responsible for the growth of our plastics business in Singapore.

8. RAYMOND YIP CHEE WENG

GROUP HUMAN RESOURCE MANAGER

Mr Yip has been in human resource management for over 20 years, with diverse experiences working in various industries, including NTUC electronic sector unions, ship-repair, hotel and trading companies. He joined the Group in 2003 to set up the human resource department. He is responsible for the daily human resource activities in Singapore and the overseas subsidiaries. Since Qian Hu achieved the SQA status, he has been actively involved in sharing the SQA framework with other organisations and implementing the framework to the various subsidiaries.

9. YAP KIM CHOON

**DIVISION HEAD
WAN HU DIVISION**

As one of our founding members, Mr Yap joined the Group in 1988 as the division 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.



1.

2.

3.

4.

THAILAND

CHINA

5.

6. MALAYSIA

SINGAPORE

7.

8.

9.

Corporate Information

Board of Directors

EXECUTIVE CHAIRMAN AND
MANAGING DIRECTOR

KENNY YAP KIM LEE

DEPUTY MANAGING DIRECTOR
ALVIN YAP AH SENG

DEPUTY MANAGING DIRECTOR
ANDY YAP AH SIONG

FINANCE DIRECTOR
LAI CHIN YEE

INDEPENDENT DIRECTOR
CHANG WENG LEONG

INDEPENDENT DIRECTOR
ROBSON LEE TECK LENG

INDEPENDENT DIRECTOR
TAN TOW EE

Audit Committee

CHAIRMAN
ROBSON LEE TECK LENG

MEMBERS
CHANG WENG LEONG
TAN TOW EE

Nominating Committee

CHAIRMAN
TAN TOW EE

MEMBERS
ROBSON LEE TECK LENG
CHANG WENG LEONG

Remuneration Committee

CHAIRMAN
CHANG WENG LEONG

MEMBERS
ROBSON LEE TECK LENG
TAN TOW EE

Registered Office

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

KPMG
CERTIFIED PUBLIC ACCOUNTANTS
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581

PARTNER-IN-CHARGE
LEE JEE CHENG PHILIP
(appointed from year ended
31 December 2007)

Principal Bankers

THE DEVELOPMENT BANK OF
SINGAPORE LTD

OVERSEA-CHINESE BANKING
CORPORATION LIMITED

MALAYAN BANKING BERHAD

THE HONGKONG AND SHANGHAI
BANKING CORPORATION LIMITED

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

2 Woodlands Sector, #03-35
Woodlands Spectrum Singapore 738068
Tel: (65) 6752 7258 Fax: (65) 6752 7258
Website: www.tatleng.com

Qian Hu Aquarium and Pets
(M) Sdn Bhd

Block E, Lot 6212, Kg. Baru Balakong 43300
Balakong, Selangor Darul Ehsan, Malaysia.
Tel: (603) 8961 5142 Fax: (603) 8961 5141

Qian Hu The Pet Family
(M) Sdn Bhd

Block E, Lot 6212, Kg. Baru Balakong 43300
Balakong, Selangor Darul Ehsan, Malaysia.
Tel: (603) 8961 5142 Fax: (603) 8961 5141

Beijing Qian Hu Aquarium
and Pets Co., Ltd

Dong Fish Farm, Bei Ma Fang Village,
Jinzhong Town, Zhao Yang District, Beijing, China.
Tel: (8610) 8431 2255 Fax: (8610) 8431 6832

Shanghai Qian Hu Aquarium
and Pets Co., Ltd

No 28, Hong Xi Road, Zhu Di Town,
Min Hang District, Shanghai, China.
Tel: (8621) 5151 8611 Fax: (8621) 5151 8612

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

Li Hong Road, Ding An Industrial Parts,
Bi Village, Xin Hua Town, Hua Du District,
Guangzhou, China.
Tel: (8620) 8687 5062 Fax: (8620) 8687 5091

74%

65%

65%

Qian Hu Marketing Co Ltd

30/23 Moo 8 Tumbol Klong Nung,
Amphur Klong Laung,
Pathun Thani Province 12120 Thailand
Tel: (662) 902 6447 Fax: (662) 902 6446

Kim Kang Aquaculture
Sdn Bhd

No. 5 & 6, Jalan Setiajaya, Taman Setia Jaya,
83000 Batu Pahat, Johor, Malaysia
Tel: (607) 428 9188 Fax: (607) 428 8213

Kim Kang Frozen Food Sdn Bhd

No. 5 & 6, Jalan Setiajaya, Taman Setia Jaya,
83000 Batu Pahat, Johor, Malaysia
Tel: (607) 428 9188 Fax: (607) 428 8213

60%

49%

Thai Qian Hu Co., Ltd.

30/25 Moo 8 Tumbol Klong Nung,
Amphur Klong Laung,
Pathun Thani Province 12120 Thailand
Tel: (662) 516 1155 Fax: (662) 516 1156

NNTL (Thailand) Limited

(The Group has voting control at
general meetings and Board meetings)
30/23 Moo 8 Tumbol Klong Nung,
Amphur Klong Laung,
Pathun Thani Province 12120 Thailand
Tel: (662) 902 6447 Fax: (662) 902 6446

ASSOCIATE 20%

Arcadia Products PLC

Arcadia House, Cairo New Road, Croydon CRO 1XP
United Kingdom
Tel: (4420) 8251 5544 Fax: (4420) 8251 5500

Financial Calendar

2007

15 January	Announcement of full year results for financial year 2006 with media & analysts briefing
23 February	Despatch of Annual Report 2006
19 March	Annual General Meeting (AGM)
11 April	Payment of final dividends declared for 2006
23 April	Announcement of first quarter results for financial year 2007
23 July	Announcement of first half results for financial year 2007 with media & analysts briefing
25 September	Payment of special dividends (Rights cum Warrants issue)
22 October	Announcement of third quarter results for financial year 2007



Value Added Statement

(\$'000)	2007	2006
Revenue earned	91,720	76,111
Less: Purchase of goods	(68,659)	(57,628)
Gross value added from operations	23,061	18,483
Other operating income	210	168
Exchange gain	271	293
Total value added	23,542	18,944
Distribution:		
To employees in salaries and other related costs	11,718	10,083
To government in corporate and other taxes	1,826	1,597
To providers of capital:		
- Interest paid on borrowings from bank	839	706
Retained for re-investment and future growth		
- Depreciation and amortisation	2,249	2,306
- Accumulated profits	4,948	2,617
- Minority interest	1,369	1,270
Non-production cost and income:		
- Bad debts and provision for doubtful debts	593	365
Total distribution	23,542	18,944
PRODUCTIVITY DATA		
	2007	2006
Number of employees	637	608
Value added per employee (\$'000)	37	31
Value added per \$ of employment cost	2.01	1.88
Value added per \$ sales	0.26	0.25
Value added per \$ of investment in property, plant and equipment	0.51	0.50

Group Financial Highlights

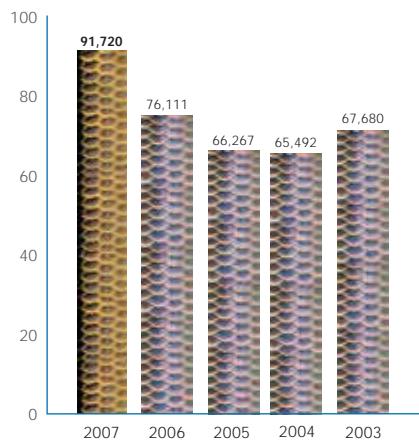
	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000
For the year					
Turnover	91,720	76,111	66,267	65,492	67,680
Earnings Before Interests, Tax, Depreciation and Amortisation (EBITDA)	10,977	8,307	6,948	6,095	11,514
Net Profit Before Tax	7,919	5,311	4,088	3,487	9,554
Net Profit After Tax and Minority Interest (PATMI)	4,948	2,617	2,030	1,627	7,016
Net Profit Margin (%)	5.4%	3.4%	3.1%	2.5%	10.4%
At Year End					
Total Assets	88,823	75,589	68,421	64,882	57,246
Net Tangible Assets	53,493	46,611	43,798	40,545	39,870
Shareholders' Fund	47,998	42,487	40,525	37,629	36,551
Total Equity	55,633	48,751	45,695	42,390	40,731
Total Liabilities	33,190	26,838	22,726	22,492	16,515
Cash and Cash Equivalent	5,450	5,467	4,336	4,153	4,124
Debt-to-Equity ratio (times)	0.60	0.55	0.50	0.60	0.45
Per Share					
Earnings Per Share (cents)	1.23*	0.64*	1.58	1.27	5.55
Gross Final Dividend Per Share (cents)	–	0.6	0.5	–	0.6
Gross Special Interim Dividend Per Share (cents)	8.54	–	–	–	–
Net Assets Value (cents)	13.5**	37.9	35.5	33.1	38.3
Net Tangible Assets (cents)	13.0**	36.4	34.1	31.6	37.5
Returns (%)					
Return on Turnover	5.4%	3.4%	3.1%	2.5%	10.4%
Return on Shareholders' Equity	10.3%	6.2%	5.0%	4.3%	19.2%
Return on Total Assets	5.6%	3.5%	3.0%	2.5%	12.3%

* after adjustment for rights and warrants issue in 2007

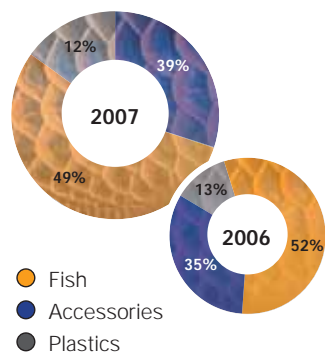
** based on enlarged share capital after rights and warrants issue in 2007

GROWTH INDICATORS

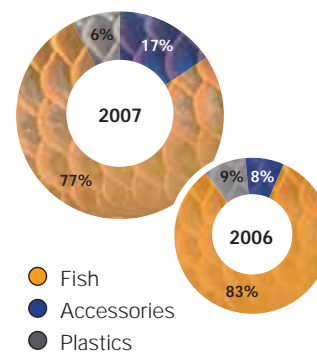
Revenue (\$'000)



REVENUE BY BUSINESS ACTIVITIES

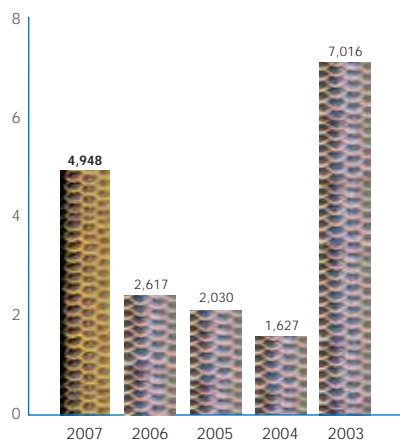


PROFIT BY BUSINESS ACTIVITIES

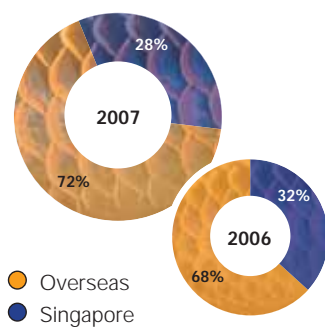


GROWTH INDICATORS

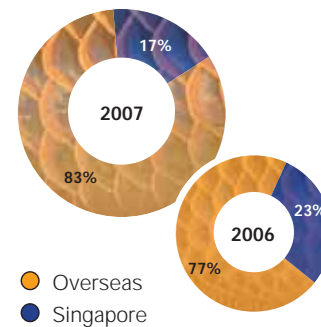
Net Profit (\$'000)



REVENUE BY GEOGRAPHICAL LOCATION



PROFIT BY GEOGRAPHICAL LOCATION







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 four countries, namely, Singapore, Malaysia, Thailand and China, which consists of 10 subsidiaries (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 Southeast Asia, South America and Africa. The Group currently exports over 500 species and varieties of ornamental fish directly to more than 70 countries as well as distributes to local retailers and exporters. The “Qian Hu” Dragon Fish is increasing regarded as a premium brand in Northeast China.

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

Plastics 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.

Qian Hu – The Pet Family

The Group started penetrating the retail market with a chain store concept, “Qian Hu - The Pet Family” in 2004 which it intends to professionalise a highly fragmented market to mass market a niche industry. Since then, the Group opened 12 retail chain stores in China (3), Malaysia (5) and Thailand (4). All the chain stores sell both ornamental fish and related aquarium & pet accessories while some stores also conduct pet grooming activities.

To be the World's Number 1 ornamental fish exporter



To escalate export of aquarium and pet accessories



To be the most innovative and profitable Dragon Fish breeder



To be the top 3 manufacturers of aquarium accessories in China



To expand distribution capabilities from owning the business to owning the customers



Vision Objectives

To become the world's Number 1 ornamental fish exporter

Ornamental fish will continue to be an important core business activity of the Group. Qian Hu is the only ornamental fish company in the world to be able to export fish from four countries, namely Singapore, Thailand, Malaysia and China. By exporting more fish to more customers and countries all over the world, while continuing to expand the domestic distribution network of ornamental fish in the four countries mentioned above, the Group is on track to become the world number 1 exporter in time to come.

Currently, the Group export ornamental fish to more than 70 countries around the world. It intends to export ornamental fish to more than 80 countries globally in the coming years.

To escalate export of aquarium and pet accessories and make "Ocean Free" one of the most recognized aquarium accessories brand

With the acquisition of 20% stake in Arcadia Products PLC ("Arcadia") in July 2007, it enables the Group to make its first foray into the European market. Arcadia has a sterling reputation for its high quality aquarium lighting products which are sold to a total of 90 specialists and general pet wholesalers in the United Kingdom, and are distributed to 55 countries around the world. Currently, the Group exports its "Ocean Free" brand (No. 1 aquarium accessories brand in Singapore – according to Euromonitor) of aquarium accessories products to approximately 20 countries around the world but with limited presence in Europe. Through Arcadia, it plans to set up a marketing arm in London to further establish its aquarium and pet accessories products in the Europe continent. It is the Group's intention to export its aquarium and pet accessories products to as many countries as its ornamental fish export.

To be the most innovative and profitable Dragon Fish breeder

China is a huge market for Dragon Fish, as is in Taiwan and Japan. Based on the improved sales recorded, the Group envisage that its Dragon Fish sales will continue to increase in the coming years. Qian Hu's collaboration with Temasek Life Sciences Laboratory in researching the breeding behaviour of

Dragon Fish has enabled the Group to increase the production of Dragon Fish in its farms, and hence enhance its ability to meet the future growth in demand of Dragon Fish and improve profitability from its Dragon Fish sales. The "Qian Hu" Dragon Fish has gradually established itself as a premium brand in North east China.

To be one of the top 3 manufacturers of aquarium accessories in China

The Group's factory in Guangzhou produces aquarium accessories products for its subsidiaries, as well as third party customers. With the increasing orders for the manufactured products from its existing and new OEM customers, coupled with the transfer of Arcadia's production facilities from UK to the Guangzhou factory by Year 2008, the production output from the Guangzhou factory is expected to increase. Accordingly, the revenue and profit contributions from the factory will increase, with the aim to emerge as one of the top 3 manufacturers in China for aquarium accessories.

To expand distribution capabilities from owning the business to owning the customers

In a process of professionalising a highly fragmented ornamental fish and aquarium & pets accessories retail market, the Group have set up 12 "Qian Hu – The Pet Family" retail chain stores throughout the region as at 31 December 2007, which provide better services, a wider product range in a visually-stimulating shopping environment, and thereby offering hobbyists and customers a different and more enjoyable shopping experience. The Group will continue to set up more of these retail chain stores in the future, especially in Malaysia.

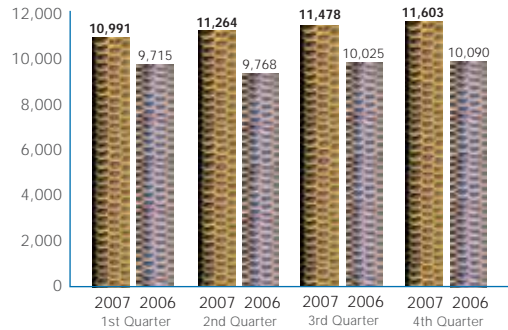
In addition, the Group has more than 100 distribution point across China distributing its Dragon Fish and its house-brands of accessories products. The Group intends to further enhance its presence in China by increasing its marketing effort in penetrating the China market so as to increase the number of distribution points to 150 locations in Year 2008.

Financial Performance

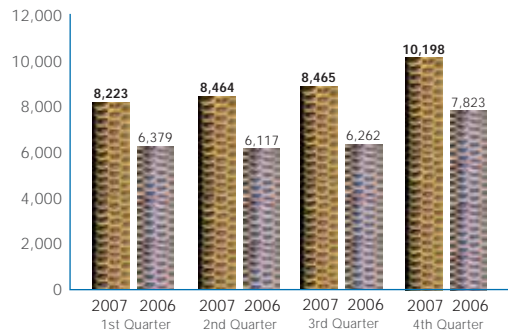
	2007 \$'000	2006 \$'000	Change %
SELECTED PROFIT AND LOSS DATA			
Turnover			
- Ornamental fish	45,336	39,598	14.5
- Accessories	35,350	26,581	33.0
- Plastics	11,034	9,932	11.1
Total revenue	91,720	76,111	20.5
Less : Cost of sales	(60,175)	(49,138)	22.5
Gross profit	31,545	26,973	17.0
Add : Other operating income	210	168	25.0
Less : Operating expenses	(23,860)	(21,830)	9.3
Operating profit	7,895	5,311	48.7
Add : Share of profit of associate	24	-	100.0
Profit before taxation	7,919	5,311	49.1
Less : Taxation	(1,602)	(1,424)	12.5
Profit after taxation	6,317	3,887	62.5
Attributable to:			
Equity holders of the Company	4,948	2,617	89.1
Minority interests	1,369	1,270	7.8
	6,317	3,887	62.5
SELECTED BALANCE SHEET DATA			
Total assets	88,823	75,589	17.5
- Property, plant and equipment	12,439	11,490	8.3
- Brooder stocks	21,365	15,280	39.8
- Inventories	23,429	23,369	0.3
- Trade receivables	17,607	15,913	10.6
- Cash and cash equivalents	5,450	5,467	(0.3)
Total liabilities	33,190	26,838	23.7
Total equity	55,633	48,751	14.1
Capital expenditure	9,318	6,762	37.8

Revenue

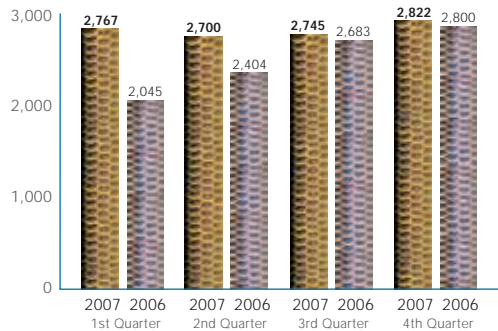
REVENUE BY BUSINESS ACTIVITIES (S'\$000)



FISH

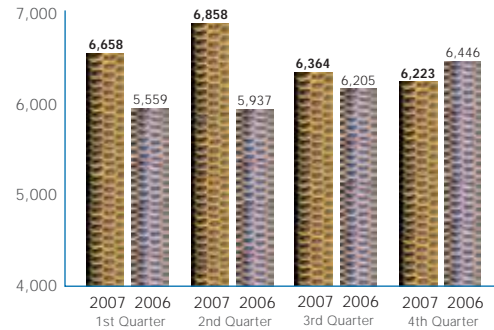


ACCESSORIES

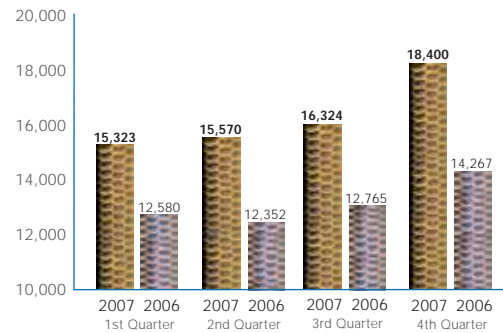


PLASTICS

REVENUE BY GEOGRAPHICAL LOCATION (S'\$000)



SINGAPORE



OVERSEAS

For the year ended 31 December 2007, the ornamental fish and accessories activities continued to be the Group's core activities, which together accounted for more than 88% of its total revenue. The Group's overall revenue increased by approximately \$15.6 million or 20.5% from \$76.1 million for the year ended 31 December 2006 to \$91.7 million for the year ended 31 December 2007.



• **Ornamental Fish**

Dragon Fish sales continued to dominate the growth in ornamental fish turnover in the current financial year. The continuous effort to increase export of ornamental fish to more customers and countries around the world from Singapore, Thailand and Malaysia, has also contributed to the improved ornamental fish revenue in FY 2007 as compared to FY 2006. The Group managed to sell more ornamental fish to newly captured export markets, which include more provinces & cities in China (for Dragon Fish), Middle East, Russia and Australia (for other ornamental fish) in the current financial year.

• **Accessories**

With the stabilised domestic market, more effort was channeled to explore untapped overseas markets in order to increase our accessories export from Singapore to more countries, which has accounted for approximately 65% of the overall increase in accessories revenue in the current financial year as compared to FY 2006. In addition, the Guangzhou factory's revenue was higher in FY 2007 as it managed to secure increasing manufacturing orders from new and existing OEM customers since the 2nd half of 2006.

The Group's subsidiaries in Malaysia, Thailand and China also managed to expand their distribution network in those countries to capture more sales in FY 2007 as compared FY 2006.

• **Plastics**

Turnover from plastics activities is experiencing steady growth every quarter. Its turnover registered in FY 2007 surged as comparable to the previous financial year as it managed to focus on generating sales through selling more high value items and expanding its distribution channel and enlarged customer base.

On a geographical basis, revenue from Singapore and overseas grew by 8.1% and 26.3% respectively in FY 2007 as compared to FY 2006. Revenue from Singapore operations has shown improvement after having been through a process of consolidation. Both Singapore and overseas operations' constant efforts in expanding their distribution network into overseas untapped markets contributed to the increase in overseas revenue.

Operating Expenses

The breakdown of operating expenses is set out as follows:

	2007 \$'000	2006 \$'000	Change %
STAFF COST			
Directors' remuneration	1,715	1,318	30.1
Salary and related cost	8,633	7,599	13.6
Provident fund contribution	680	594	14.4
Staff welfare benefits	690	572	20.6
Total staff cost	11,718	10,083	16.2
PREMISES AND EQUIPMENT			
Depreciation of fixed and biological assets	2,206	2,262	(2.5)
Rental of premises	997	1,294	(23.0)
Upkeep, repair and maintenance	1,174	897	30.9
Total premises and equipment	4,377	4,453	(1.7)
Selling and distribution expenses	2,805	2,480	13.1
Interest expenses (net)	832	690	20.7
Bad trade receivables written off	7	81	(91.3)
Allowances for			
- Doubtful trade receivables	593	295	101.1
- Due from associates	-	70	(100.0)
Exchange gain (net)	(271)	(293)	(7.4)
Utilities	1,110	1,146	(3.1)
Consultancy and professional fees	343	393	(12.7)
Other operating expenses	2,346	2,432	(3.5)
Total operating expenses	23,860	21,830	9.3
Group staff strength	639	603	6.0

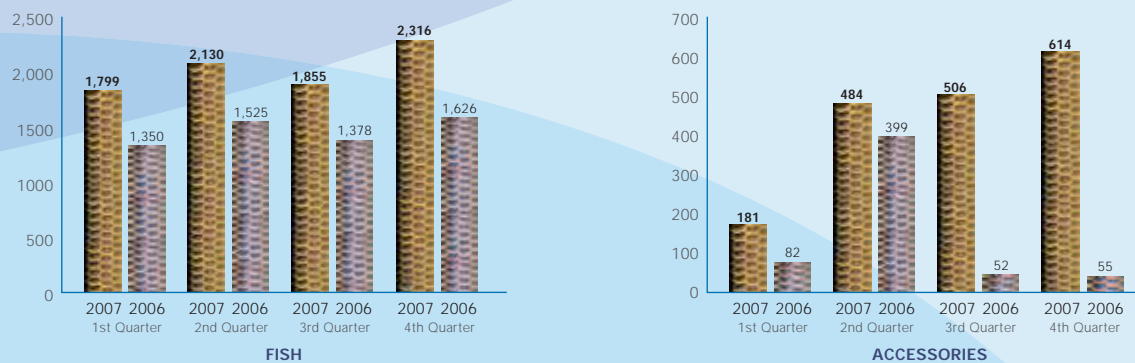
The increase in operating expenses in the current financial year by \$2.0 million as compared to FY 2006 was mainly due to higher personnel expenses incurred as a result of annual salary revision and the increase in overall headcount of the Group. This was in line with the higher revenue contributions and the expansion of the Group's operations.

The increase in interest expenses for the year ended 31 December 2007 was mainly due to interest incurred on higher amount of bank borrowings during the financial year.

Profitability

The better performance from all business activities in FY 2007 has resulted in the overall increase in operating profit (before taxation and minority interests) achieved by \$2.6 million or 49.1% as compared to the previous financial year. Profit after taxation attributable to shareholders of the Company increased by 89.1% from \$2.6 million in FY 2006 to approximately \$5.0 million in FY 2007. The fish business remained the main profit contributor in FY 2007.

PROFIT BY BUSINESS ACTIVITIES
(\$'000)

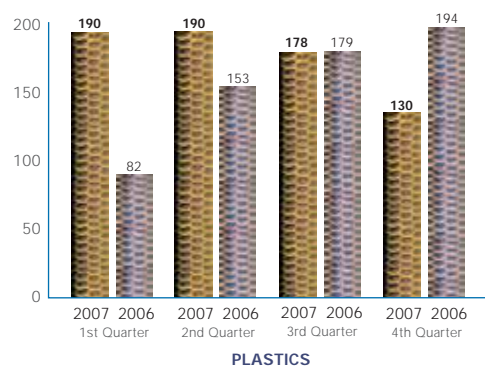


• *Ornamental Fish*

The Group's increase in operating profit from the ornamental fish activities was in line with the higher sales recorded and the better margins yielded from the sales of self-bred Dragon Fish.

• *Accessories*

During the current quarter, the Group continued to make conscientious effort to gradually revive the accessories business margin back to a respectable level. With improved revenue generated and better profit margin contributions from the export of accessories, its profitability has shown improvement. In addition, with more manufacturing orders secured, the Group managed to further enhance the operational efficiency of its Guangzhou factory, which has lifted the profitability of accessories business significantly as compared to the corresponding period in 2006.



• **Plastics**

Operating profit from the Group's plastics activities recorded promising growth in FY 2007, which was in line with the improvement in revenue.

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

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

	2007	2006
	\$'000	\$'000
Cash generated from operating activities	8,650	9,361
Cash used in investing activities	(9,601)	(6,583)
Cash generated from (used in) operating activities	921	(1,660)
Net increase (decrease) in cash and cash equivalents	(30)	1,118
Cash and cash equivalents as at end of year	5,450	5,467

Despite higher operating profit generated for the year ended 31 December 2007, the decrease in **net cash generated from operating activities** in the current financial year as compared to FY 2006 was mainly due to increase in the amount of trade receivables as a result of higher revenue registered.

Net cash used in investing activities was mainly related to the purchase of brooder stocks in Kim Kang Aquaculture Sdn Bhd and capital expenditure incurred for infrastructure and farm facilities in overseas entities, as well as cash payment of approximately \$813K made to acquire 20% equity interest in an associate in July 2007.

Net cash generated from financing activities during the financial year was related to cash proceeds from the issuance of new shares arising from the exercise of employees' share options and the exercise of warrants issued. In addition, there was drawdown of additional bank loans granted by financial institutions mainly to finance capital expenditure incurred.

The above amounts were partially offset by:

- repayment made to minority shareholders of a subsidiary,
- servicing of interest payments,
- settlement of finance lease obligations on a monthly basis; and
- payment of final dividend of approximately \$634K made to shareholders in April 2007.

Indebtedness

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

	2007 \$'000	2006 \$'000
Due within 1 year:		
Bills payable to banks	5,003	5,157
Finance lease obligations	165	182
Short term bank loans (unsecured)	7,100	6,300
Long term bank loans, current portion		
- Secured	30	40
- Unsecured	227	196
Bank overdraft	2,067	174
	14,592	12,049
Due after 1 year:		
Finance lease obligations	332	109
Long term bank loans		
- Secured	111	128
- Unsecured	1,434	553
	1,877	790
Total Indebtedness	16,469	12,839
Debt-to-Equity ratio	0.60	0.55

The unsecured short-term loans are revolving bank loans that bear interest at rates ranging from 3.81% to 4.19% (2006: 5.18% to 5.27%) per annum.

The long-term loans comprise:

- a 7-year bank loan of RM0.5 million, secured by a mortgage on a subsidiary's freehold land, bears interest at 8.00% (2006: 8.25%) per annum and is repayable in 84 instalments commencing January 2005;
- a 5-year unsecured bank loan of RM1.85 million, bears interest at 8.25% (2006: 8.25%) per annum and is repayable in 60 monthly instalments commencing August 2006; and
- a 10-year unsecured bank loan of RM2.5 million, bears interest at 8.25% (2006: Nil) per annum and is repayable in 120 monthly instalments commencing March 2007.

As at 31 December 2007, there were corporate guarantees given by the Company to financial institutions for banking facilities extended to subsidiaries amounting to approximately \$9.6 million (2006: \$7.6 million), of which approximately \$8.9 million (2006: \$6.3 million) had been utilised.

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 2007, of which \$0.3 million is due within 12 months.

Risk Factors & Risk Management



Business Risk

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

Operational Risk

Operational risk is the potential loss caused by a breakdown in internal process, deficiencies in people and management, or operational failure arising from external events. The operational risk management process is to minimise unexpected losses and manage expected losses. The Group currently operates in 4 countries with assets and activities spreading across the Asia Pacific. As at 31 December 2007, almost 70% of the Group's assets are located overseas as compared to 66% in FY 2006. Revenue from overseas' customers constitute approximately 72% of the total revenue in FY 2007.

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 2007, the Group's Dragon Fish sales contributed approximately 25% of the Group's total revenue. The Group sells over 500 species and varieties of ornamental fish and more than 5,000 types of accessories to more than 70 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 United States Dollar, Euro and Japanese Yen.

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

None of the customers or suppliers contributes more than 5% of the Group's revenue and purchases. It is the Group's policy to sell to a diversity of credit-worthy 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, it has adopted a prudent accounting policy of making specific provisions once trade debts are deemed not collectible. Accordingly, the Group does not expect to incur material credit losses on its risk management or other financial instruments.

Interest Rate Risk

Interest rate risk is managed by the Group on an on-going basis with the objective to limit the extent to which the Group's results could be affected by an adverse movement in interest rate.

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

Liquidity Risk

The objective of liquidity management is to ensure that the Group has sufficient funds to meet its contractual and financial obligations as and when they fall due. 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 segment.

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

Human Resources

The biggest challenge for Qian Hu is always to get enough talent to execute its expansion plans. 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.

The Group's collaboration work with Temasek Life Sciences Laboratory since four years ago on the studies of the Asian Arowana (Dragon Fish) using molecular technologies has yielded valuable results. It has developed

a molecular method for the identification of parent-sibling connections, and according to knowledge, Qian Hu is the only farm who knows the exact contribution of the brooder stocks to the total production of ponds. The outcomes of the research were implemented on the breeding program as well as other aspects of the Dragon Fish operations in the farm and their beneficial effects to the improved performance of Dragon Fish sales. The Group is currently at the end of the first phase of the collaborative R&D project and it is now in the process of finalising another agreement on the second phase. In the second phase, Qian Hu has applied to the Economic Development Board (EDB) Innovative Development Scheme (IDS) to harness their financial support.

Capital Expenditure

In FY 2007, capital expenditure incurred for infrastructure and farm facilities in both the Singapore and overseas entities amounted to \$2.4 million. The purchase of brooder stocks have accounted for \$6.5 million of the capital expenditure for the financial year.

In FY 2008, with the successful tender for a land parcel adjacent to its Singapore farm, a bulk of the intended capital expenditure during the year will be utilised to construct and expand the existing Dragon Fish breeding and farming facilities in Singapore. In addition, the Group will continue to invest in farming facilities and the purchase brooder stocks in its Malaysia Dragon Fish farm so as to enhance its production capabilities, along with the on-going maintenance of the Group's farm facilities.



Returns to Shareholders

Earnings per ordinary share (EPS)

The basic and diluted EPS for FY 2007 was 1.34 and 1.23 cents respectively. Compared to FY 2006, both basic and diluted EPS increased by approximately 0.60 cents, which was in line with the higher profit after tax recorded in FY 2007.

Dividends

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. As such, the Group has not set a concrete dividend policy at present. After taken into consideration the Group's profit growth, cash position, positive cash flow generated from operations, and the projected capital requirements for business expansion, a gross final dividend of 0.6 cents per ordinary share in respect of financial year ended 31 December 2006 was paid in April 2007.

In addition, the following exercises were undertaken by the Company in July 2007:-

- (a) payment of a special interim cash dividend for the financial year 2007 of 8.54 cents less tax of 18% (or 7.0 cents net) per ordinary share; and
- (b) adoption of a renounceable non-underwritten rights issue ("Rights Shares") at an issue price of S\$0.035 for each Rights Share, with free detachable warrants ("Warrants"), each Warrant carrying the right to subscribe for one new ordinary share in the capital of the Company at an exercise price of S\$0.035 for each new share, on the basis of two Rights Shares for every one existing share in the capital of the Company held, and one Warrant for every four Rights Shares subscribed, fractional entitlements to be disregarded (the "Rights cum Warrants Issue").

The purpose of the cash dividend is to further reward our shareholders for their loyalty and support to the Company over the years. With this special dividend payout, shareholders not only enjoyed the Company's Section 44 tax credits passed on to them, but also the option to re-invest their cash dividend by subscribing for the Rights Shares.





Our Stakeholders

At Qian Hu, we place strong emphasis on our stakeholders – in developing our people to achieve their highest potential; in communications with our shareholders and investors, and in reaching out to our community, which includes environment protection.

Our stakeholders are equally, if not more important than our business and we will do whatever is necessary to ensure that their needs are met.



Developing Our People

Certified as a People Developer since November 2005, Qian Hu is focused on developing a workforce that continues to learn and think. Supported by a strong, nurturing management team, and with a cutting-edge framework, we have the necessary resources to facilitate continual growth and development in our people. At Qian Hu, everyone is part of the extended family and are integral parts of our “People First” culture. Besides prioritizing staff welfare, we have a systematic performance appraisal system in place to ensure that every Qian Hu staff continues to be motivated to bring more value to the Group.

For the past three fiscal years, we capped our training expenditure at 2% of total payroll. In FY 2007, each staff spent approximately 74 training hours with utilisation of training places exceeded 70%. This further underscores our commitment and investment in this vital area of human resource development. During the year in review, a total of 36 staff were sent to attend training on workplace safety, supervisory and language enhancement

courses. In addition, our staff working in operations underwent external training as well as internal on-the-job training by our divisional directors and managers.

To ensure continuity, Qian Hu seeks to build its pool of management talent comprising people who identify with our corporate values, culture and business objectives. Management trainees are sent on postings to its overseas subsidiaries for a number of years, thereby helping them to gain a more rounded, cross-cultural experience as well as an in-depth appreciation of the industry at a regional level. Our management development programme also includes the opportunity to be trained at one of our many reputable partners, and then transferring the know-how to the Group.

In keeping with our culture of having a fun work environment, we have also organized regular recreational staff activities such as yoga sessions and bowling competitions, as well as staff annual dinner and invitations to popular musicals. Our staff welfare programmes have proven to be very popular amongst our staff, with more than 90% participation over the past two years.



Our Community & the Environment

Since 2001, Qian Hu has continued to extend its care and concern to the community as part of its family culture. The Group firmly believes that our business is about enhancing the modern lifestyle and the environment which should also include the needs of the community.

For the past six years, our contribution to charity – approximately 1.3% of pre-tax profit -- has stayed above the national average index of 0.22%.

Our “Dollar for Dollar” donation scheme, where staff members are encouraged to donate to charities and the Company will match their donations, dollar-for-dollar, generated \$3,000 for Zion Home for the Aged as well as \$3,917 for a colleague suffering from kidney failure. Our annual charity fish exhibition at Bugis Junction had also contributed \$20,000 to the St. John’s Home for the Elderly.

At Qian Hu, we balance our goals of creating value in our business with a strong responsibility to minimize the impact that our business activities have on the environment. Through our ISO 14001 certified Environmental Management System, we strive to preserve and recycle our natural resources in our daily activities. Not neglecting the plight of endangered wildlife, our entire operations are compliant with the standards set out by the United Nations’ Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

You may also notice that we have begun using recycled paper in this year’s Annual Report. We will continually strive to use paper more efficiently in our printed communications.



Our Shareholders & Investors

We understand the importance of having accessibility to the media, analysts and the investing public through an effective investor relations programme. Since our listing in 2000, we have been very committed and innovative in demonstrating our corporate responsibility. We were the first listed company to record the comments of our shareholders at our Annual General Meetings, and making the minutes available on both the SGXNET and our website (www.qianhu.com). We are also the first to offer an automated phone hotline service where callers are able to get information on their reward points, give feedback and even obtain the latest Qian Hu stock quotes in real-time.

Our results briefings, held twice yearly, are open to the media, analysts and investment community. Those who cannot make it have the option to watch it through recorded video webcasts or live audio webcasts. After our results announcements, we usually offer the investment community a deeper understanding of our business and industry through an online open forum on Shareinvestor.com.

Committed to the best practices in corporate transparency and governance, Qian Hu has been recognized for our efforts by our winning awards such as the Most Transparent Company Award from the Securities Investors Association (Singapore) since 2001. We have also regularly topped the Business Times Corporate Transparency Index (CTI).

Most recently, we were named by IR Magazine in its Southeast Asia Awards 2007 for 4 awards:

- Grand Prix for Best Overall Investor Relation (Small or Mid-Cap category)
- Best Corporate Governance (Small or Mid-Cap category)
- Best Financial Reporting (Small or Mid-Cap category)
- Most Progress in Investor Relations (Small or Mid-Cap category)

Qian Hu was also amongst 19 companies that won the Professional Enterprise Award (Prestige category) from Asian Management Association (AMA) and Certified Consultant Academy (CCA) in 2007. This inaugural award is given to an enterprise that is competitive in its own market segment, with comprehensive management systems in the 5 key areas such as Strategy & Leadership, Marketing Management, Human Resource Development, Operations & Execution Capabilities, and Financial Management.

The ornamental fish industry is also a vital stakeholder. Our Executive Chairman serves as Chairman of Ornamental Fish Business Cluster which aims to reinforce Singapore as an Ornamental Fish Export Centre, as well as develop centres of research, training and quality consultancy services for the industry in Singapore and the region.

Recognizing that the drivers of the industry lie in the youth of today, Kenny also chairs the Youth Award for Entrepreneurship Committee where he contributes by sharing his passion and experience to inspire and motivate young entrepreneurs.

Awards



Recognition for Business Excellence

Professional Enterprise Award 2007

Awarded by Asian Management Association and Certified Consultant Academy

People Developer Standard 2006

Awarded by Spring Singapore

ZDNet Asia Smart50 2006

Awarded by ZDNet Asia in recognition of our IT initiative "FISH"

Singapore Quality Award 2004

Awarded by Spring Singapore

International Headquarters Award 2003

Awarded by Ministry of Trade and Industry

Recognition for Excellence in Corporate Governance

IR Magazine Southeast Asia Awards 2007

Best Corporate Governance (Winner - Small or Mid-Cap)

Best Managed Board Award (Special Mention) 2003

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

Recognition for Excellence in Corporate Transparency

Business Times' Corporate Transparency Index 2004, 2005, 2006 and 2007

- Top ranking

Singapore Corporate Awards 2006

- Best Investor Relations Award (Gold - Market capitalisation of less than \$500 million)
- Best Annual Report Award (Gold - Market capitalisation of less than \$500 million)

SIAS Most Transparent Company Award 2007

- Winner in Mainboard Small Caps (up to \$100 million) category

SIAS Most Transparent Company Award 2006

- Runner-up in Mainboard Small Caps (up to \$100 million) category

SIAS Most Transparent Company Award 2005

- Runner-up in Mainboard Small Caps (up to \$100 million) category

SIAS Most Transparent Company Award 2004

- Winner in Mainboard Small Caps (up to \$100 million) category
- Runner-up in Services/Utilities/Agriculture category

SIAS Most Transparent Company Award 2003

- Winner in Services/Utilities/Agriculture category
- Golden Circle Special Merit Award

IR Magazine Southeast Asia Awards 2007

- Grand Prix for Best Overall Investor Relations (Winner - Small or Mid-Cap)
- Best Financial Reporting (Highly Recommended - (Small or Mid-Cap)
- Most Progress In Investor Relations (Highly Recommended - (Small or Mid-Cap)

Qian Hu Milestones

Qian Hu Story

Our 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 our Executive Chairman Kenny Yap, and his brother, Mr Yap Hey Cha, father of our Deputy Managing Directors Alvin Yap and Andy Yap.

1985

As a result of urban redevelopment, the Yaps, together with Tik Huay's three sons, Peng Heng, Hock Huat and Kim Choon, converted the old pig pens into concrete ponds and bred guppies for local exporters.



1989

A severe thunderstorm wiped out all the guppies. Having to start all over again, and with a new name "Qian Hu" (literally, Thousand Lakes in Chinese), Kenny and cousins Alvin and Andy, were more than ever determined to rebuild the family business.

They went on to farm High-Fin Loaches despite knowing very little about this fish. In one fell swoop, their entire stock of 4,000 Loaches died. They lost almost everything, except their resolve, mettle and determination to rise up again.

To remind them of the vital lesson on diversifying risks and focus on product knowledge, they kept the High-Fin Loach as Qian Hu's mascot – which serves as a daily reminder to them.



1990

Expanded into the local wholesale distribution business with a wider range of ornamental fish and aquarium accessories.



1993

Forayed into the China market with a joint venture in Beijing, supplying cold-water ornamental fish and aquarium accessories.



1995

Awarded three ISO 9002 certifications and an ISO 14001 for environmental management system.



1997

Launched auto-packing machinery for packing of fish.



1999

Expanded the accessories distribution to Malaysia, China and Thailand.





2000
The year Qian Hu became a public listed company on SESDAQ.



2002
Transferred to Mainboard.



2004
Launch of "Qian Hu – The Pet Family" retail chain stores in Malaysia, China and Thailand.



2006
A turnaround year for Qian Hu as all of our core business did well, including our 12 retail chain stores in Malaysia, Thailand and China.

2001
Established Guangzhou as our manufacturing hub for aquarium and pet accessories.



2003
Acquired Kim Kang Aquaculture Sdn Bhd – the leading Dragon Fish breeder in Malaysia.

Awarded International Headquarters status.



2005
Year of transformation and consolidation for the Group.



2007
Acquisition of a 20% stake in UK-based Arcadia Products PLC.





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