**QIAN HU CORPORATION LIMITED**
**(Company Registration No. : 199806124N)**

**FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT**
**FOR THE YEAR ENDED 31 DECEMBER 2007**

## TABLE OF CONTENTS

**QIAN HU CORPORATION LIMITED**
**(Company Registration No. : 199806124N)**

# FULL YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

## 1(a) STATEMENT OF PROFIT AND LOSS FOR THE FOURTH QUARTER AND FINANICAL YEAR ENDED 31 DECEMBER 2007

| | Note | Group 3 months ended 31 Dec | | | Group Financial year ended 31 Dec | | |
|---|---|---|---|---|---|---|---|
| | | **2007** | **2006** | **Change** | **2007** | **2006** | **Change** |
| | | $'000 | $'000 | % | $'000 | $'000 | % |
| Revenue | | 24,623 | 20,713 | 18.9 | 91,720 | 76,111 | 20.5 |
| Cost of sales | | (16,712) | (13,282) | 25.8 | (60,175) | (49,138) | 22.5 |
| **Gross profit** | | 7,911 | 7,431 | 6.5 | 31,545 | 26,973 | 17.0 |
| Other operating income | i | 17 | 5 | 240.0 | 210 | 168 | 25.0 |
| | | 7,928 | 7,436 | 6.6 | 31,755 | 27,141 | 17.0 |
| Selling & distribution expenses | ii | (477) | (610) | (21.8) | (2,805) | (2,480) | 13.1 |
| General & administrative expenses | ii | (5,110) | (5,039) | 1.4 | (20,223) | (18,660) | 8.4 |
| **Profit from operations** | iii | 2,341 | 1,787 | 31.0 | 8,727 | 6,001 | 45.4 |
| Financial income | iv | 1 | 3 | (66.7) | 7 | 16 | (56.3) |
| Financial expenses | iv | (207) | (178) | 16.3 | (839) | (706) | 18.8 |
| | | 2,135 | 1,612 | 32.4 | 7,895 | 5,311 | 48.7 |
| Share of profit of associate | | 6 | - | - | 24 | - | - |
| **Profit before taxation** | | 2,141 | 1,612 | 32.8 | 7,919 | 5,311 | 49.1 |
| Taxation | v | (222) | (315) | (29.5) | (1,602) | (1,424) | 12.5 |
| **Profit for the period/year** | | 1,919 | 1,297 | 48.0 | 6,317 | 3,887 | 62.5 |
| Attributable to: | | | | | | | |
| **Equity holders of the Company** | | **1,578** | **869** | **81.6** | **4,948** | **2,617** | **89.1** |
| Minority interests | | 341 | 428 | (20.3) | 1,369 | 1,270 | 7.8 |
| | | 1,919 | 1,297 | 48.0 | 6,317 | 3,887 | 62.5 |
| Gross profit margin | | 32.1% | 35.9% | | 34.4% | 35.4% | |
| Net profit margin | | 7.8% | 6.3% | | 6.9% | 5.1% | |
| Return on equity | | - | - | | 11.4% | 8.0% | |

## Notes to Statement of Profit and Loss

### (i) Other operating income

The amount of other operating income earned in the current financial year was higher as compared to that of 2006 mainly due to gain on disposal of property, plant and equipment of approximately $96K (2006: $3K).

**Notes to Statement of Profit and Loss (cont'd)**

(ii) **Selling & distribution expenses**
**General & administration expenses**

The total amount of operating expenses incurred in the 4th quarter of 2007 was relatively consistent as compared to that of its corresponding period in 2006. The increase in operating expenses in the current financial year by approximately $1.9 million as compared to 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.

(iii) **Profit from operations**

This is determined after charging (crediting) the following:

| | Group | | Group | |
|---|---|---|---|---|
| | 3 months ended 31 Dec | | Financial year ended 31 Dec | |
| | 2007 | 2006 | 2007 | 2006 |
| | $'000 | $'000 | $'000 | $'000 |
| Auditors' remuneration | | | | |
| - auditors of the Company | 23 | 24 | 80 | 80 |
| - other auditors | 12 | 14 | 29 | 23 |
| Non-audit fees | | | | |
| - auditors of the Company | - | 4 | - | 25 |
| - other auditors | 27 | - | 51 | - |
| Directors' fees | | | | |
| - directors of the Company | 17 | 10 | 45 | 36 |
| Directors' remuneration | | | | |
| - directors of the Company | 272 | 199 | 1,049 | 697 |
| - directors of subsidiaries | 137 | 239 | 666 | 621 |
| Amortisation of product listing fees | 12 | 13 | 43 | 44 |
| Bad trade receivables written off (back) | 7 | (1) | 7 | 81 |
| Depreciation of | | | | |
| - property, plant and equipment | 440 | 497 | 1,832 | 1,999 |
| - brooder stocks | 107 | 81 | 374 | 263 |
| Property, plant and equipment written off | 1 | - | 2 | - |
| (Gain) Loss on disposal of | | | | |
| - property, plant and equipment | (4) | 19 | (96) | (3) |
| - quoted equity investment | - | - | 1 | - |
| Allowance (Write back) for | | | | |
| - doubtful trade receivables | 92 | 191 | 593 | 295 |
| - due from associate (trade) | - | - | - | 70 |
| - inventory obsolescence | (116) | - | (3) | - |
| Operating lease expenses | 191 | 331 | 732 | 1,294 |
| Personnel expenses * | 3,106 | 2,673 | 11,718 | 10,083 |
| Exchange (gain) loss, net | 62 | (116) | (271) | (293) |
| Change in fair value less estimated point-of-sale costs attributable to physical changes of breeder stocks | 301 | - | 301 | - |

* Included directors' remuneration.

**Notes to Statement of Profit and Loss (cont'd)**

(iv) **Financial expenses - net**

| | Group 3 months ended 31 Dec | | Group Financial year ended 31 Dec | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | $'000 | $'000 | $'000 | $'000 |
| Interest expenses | | | | |
| - bank term loans | 144 | 108 | 563 | 464 |
| - bills payable | 54 | 60 | 241 | 196 |
| - finance lease obligation | 9 | 10 | 35 | 46 |
| | 207 | 178 | 839 | 706 |
| Interest income | | | | |
| - bank deposits | (1) | (3) | (7) | (16) |
| | 206 | 175 | 832 | 690 |

The increase in interest expenses in the 4th quarter of 2007 and for the year ended 31 December 2007 was mainly due to interest incurred on higher amount of bank borrowings during the financial year.

(v) **Taxation**

| | Group 3 months ended 31 Dec | | Group Financial year ended 31 Dec | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | $'000 | $'000 | $'000 | $'000 |
| Current tax | | | | |
| - current year | 229 | (52) | 1,230 | 1,020 |
| - (over) under provision in respect of prior year | (141) | - | (141) | 37 |
| Deferred tax | | | | |
| - temporary differences | 356 | 703 | 735 | 703 |
| - reduction in tax rate | (146) | - | (146) | - |
| - over provision in respect of prior year | (76) | (336) | (76) | (336) |
| | 222 | 315 | 1,602 | 1,424 |

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:

- 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
- varying statutory tax rates of different countries in which the Group operates.

As at 31 December 2007, the Group has unutilised tax losses and unabsorbed capital allowances of approximately $3,486,677 (2006: $4,634,132) and $467,621 (2006: $412,255) respectively 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 in the financial statements because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

1(b) **BALANCE SHEETS**

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 31 Dec 2007 | 31 Dec 2006 | 31 Dec 2007 | 31 Dec 2006 |
| | | $ | $ | $ | $ |
| **Equity attributable to equity holders of the Company** | | | (Restated *) | | |
| Share capital | i | 29,295,961 | 18,997,444 | 29,295,961 | 18,997,444 |
| Reserves | | 18,701,650 | 23,489,347 | 10,859,010 | 18,042,095 |
| | | **47,997,611** | **42,486,791** | **40,154,971** | **37,039,539** |
| **Minority Interests** | | 7,635,185 | 6,264,461 | - | - |
| **Total Equity** | | **55,632,796** | **48,751,252** | **40,154,971** | **37,039,539** |
| **Non-Current Assets** | | | | | |
| Property, plant and equipment | | 12,438,592 | 11,490,339 | 2,653,895 | 2,809,722 |
| Brooder stocks | ii | 21,365,162 | 15,279,911 | 1,225,980 | 1,255,170 |
| Investments in subsidiaries | iii | - | - | 11,152,586 | 11,152,586 |
| Investment in associate | iv | 836,467 | - | 812,600 | - |
| Quoted equity investment | | - | 3,597 | - | - |
| Intangible assets | v | 2,139,436 | 2,140,009 | 173,816 | 174,389 |
| **Current Assets** | | | | | |
| Inventories | vi | 22,008,603 | 21,647,322 | 6,715,116 | 5,919,631 |
| Breeder stocks | vii | 1,420,870 | 1,721,800 | 245,800 | 245,800 |
| Trade receivables | viii | 17,606,700 | 15,913,049 | 6,840,494 | 7,962,236 |
| Other receivables, deposits and prepayments | ix | 1,835,473 | 1,751,825 | 578,626 | 276,147 |
| Due from | | | | | |
| - subsidiaries (trade) | | - | - | 16,689,951 | 16,002,851 |
| - subsidiaries (non-trade) | | - | - | 2,855,941 | 2,703,720 |
| - associate (trade) | | 1,655,630 | - | 1,655,630 | - |
| Fixed deposits | | 23,706 | 23,706 | 23,706 | 23,706 |
| Cash and bank balances | | 7,492,720 | 5,617,192 | 4,744,282 | 3,677,172 |
| | | 52,043,702 | 46,674,894 | 40,349,546 | 36,811,263 |
| **Current Liabilities** | | | | | |
| Trade payables | | 7,356,060 | 6,007,592 | 2,740,663 | 3,267,276 |
| Bills payable to banks (unsecured) | x | 5,002,650 | 5,156,871 | 1,341,255 | 1,188,399 |
| Other payables and accruals | xi | 4,782,181 | 3,746,860 | 3,763,148 | 2,913,118 |
| Due to | | | | | |
| - subsidiaries (trade) | | - | - | 50,842 | 81,885 |
| - subsidiaries (non-trade) | | - | - | 480,000 | 690,000 |
| - minority shareholders of a subsidiary (non-trade) | | 869,356 | 1,146,569 | - | - |
| Finance lease obligations | xii | 164,849 | 181,723 | 59,732 | 79,676 |
| Bank term loans | xiii | 7,357,093 | 6,536,711 | 7,100,000 | 6,300,000 |
| Provision for taxation | | 775,093 | 643,738 | 469,275 | 360,087 |
| Bank overdraft (unsecured) | | 2,066,483 | 173,570 | - | - |
| | | 28,373,765 | 23,593,634 | 16,004,915 | 14,880,441 |
| **Net Current Assets** | | 23,669,937 | 23,081,260 | 24,344,631 | 21,930,822 |
| **Non-Current Liabilities** | | | | | |
| Finance lease obligations | xii | (331,987) | (108,724) | (73,537) | (48,150) |
| Bank term loans | xiii | (1,545,566) | (681,420) | - | - |
| Deferred taxation | | (2,939,245) | (2,453,720) | (135,000) | (235,000) |
| **Net Assets** | | **55,632,796** | **48,751,252** | **40,154,971** | **37,039,539** |

* Minority interests, intangible assets and deferred taxation balances as at 31 December 2006 have been restated to recognise a prior year adjustment by a subsidiary.

1(b) **BALANCE SHEETS (cont'd)**

| | Group | | Company | |
|---|---|---|---|---|
| | **31 Dec 2007** | **31 Dec 2006** | **31 Dec 2007** | **31 Dec 2006** |
| Inventory turnover (days) | 142 | 168 | 65 | 74 |
| Trade receivables turnover (days) | 67 | 74 | 53 | 68 |
| Debt equity ratio | 0.60 | 0.55 | 0.40 | 0.41 |

## Notes to Balance Sheets

### (i) Share capital

| | **Number of shares** | **$** |
|---|---|---|
| **Ordinary shares issued and fully paid** | | |
| Balance as at 1 Jan 2007 | 128,872,934 | 18,997,444 |
| Issue of new shares | | |
| - Exercise of employees' share options | 1,059,000 | 624,810 |
| - Rights cum warrants issue, net of issue expenses (see below) | 259,863,868 | 8,899,665 |
| - Exercise of warrants issued (see below) | 22,115,477 | 774,042 |
| Balance as at 31 Dec 2007 | 411,911,279 | 29,295,961 |

As at 31 December 2007, there were no (2006: 1,122,000) unissued ordinary shares in the Company under options granted to eligible employees of the Group, including associates of controlling shareholders of the Company, under the Qian Hu Post-IPO Share Option Scheme ("Post-IPO Scheme"). During the financial year, there were 1,059,000 share options exercised at $0.59 per share pursuant to the terms of the Post-IPO Scheme, and 63,000 options were cancelled due to resignation of employees.

***Cash dividend and Rights cum Warrants Issue***

In accordance with the announcement made by the Board of Directors in June 2007, the following exercises (collectively "Exercise") were undertaken by the Company:-

(a) payment of a special interim cash dividend for the financial year ended 31 December 2007 of 8.54 cents less tax at 18% (or 7.0 cents net) ("Cash Dividend") per ordinary share in the capital of the Company ("Share") in respect of Shares held by shareholders of the Company ("Shareholders") as at 20 August 2007 ("Books Closure Date"); and

(b) adoption of a renounceable non-underwritten rights issue ("Rights Shares") at an issue price of $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 ("New Share") at an exercise price of $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 as at Books Closure Date, 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 reward the 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.

**Notes to Balance Sheets (cont'd)**

(i) **Share capital (cont'd)**

The Rights cum Warrants Issue aims to strengthen the capital base of the Company following payment of the Cash Dividend. By utilizing the Cash Dividend to subscribe for the Rights cum Warrants Issue, it was in effect converting a proportionate amount of the Company's retained earnings into paid-up capital of the Company.

Based on the issued share capital of the Company on Books Closure Date of the Exercise, the aggregate amount of Cash Dividend payable was $9,095,235 and 259,863,868 Rights Shares and 64,965,868 Warrants were listed and quoted on SGX Main Board on 21 September 2007 and 24 September 2007 respectively.

As at 31 December 2007, 22,115,477 warrants issued were exercised by warrant holders to subscribe for 22,115,477 New Shares of the Company at the exercise price of $0.035 per New Share. Subsequent to year end, of the 42,850,391 warrants outstanding at the end of the financial year, an additional 1,289,740 warrants issued were exercised for 1,289,740 New Shares of the Company. In the event that all 64,965,868 Warrants are exercised, the estimated gross proceeds arising from which will amount to $2,273,805. There were no gross proceeds from the Rights Issue as the proceeds were set off by the Cash Dividend payout.

As and when the Warrants are exercised, proceeds arising from there may, at the discretion of the directors, be applied towards repayment of the Group's borrowings, investment purposes, working capital and/or such other purposes as the directors may deem fit.

(ii) **Brooder stocks**

| | Group | | Company | |
|---|---|---|---|---|
| | **31 Dec 2007** | **31 Dec 2006** | **31 Dec 2007** | **31 Dec 2006** |
| | $ | $ | $ | $ |
| **Cost** | | | | |
| Balance as at 1 Jan | 16,099,284 | 10,523,332 | 1,459,500 | 1,459,500 |
| Additions during the year | 6,491,591 | 5,698,991 | - | - |
| Translation differences | (33,578) | (123,039) | - | - |
| Balance as at 31 Dec | 22,557,297 | 16,099,284 | 1,459,500 | 1,459,500 |
| **Accumulated depreciation and impairment losses** | | | | |
| Balance as at 1 Jan | 819,373 | 561,437 | 204,330 | 175,140 |
| Depreciation charge for the year | 374,173 | 263,180 | 29,190 | 29,190 |
| Translation differences | (1,411) | (5,244) | - | - |
| Balance as at 31 Dec | 1,192,135 | 819,373 | 233,520 | 204,330 |
| **Net carrying value** | | | | |
| Balance as at 31 Dec | 21,365,162 | 15,279,911 | 1,225,980 | 1,255,170 |

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 any impairment loss.

**Notes to Balance Sheets (cont'd)**

(iii) **Investments in subsidiaries**

The details of subsidiaries are as follows:

| Name | Effective equity interest held by the Group | | Cost of investment by the Company | |
|---|---|---|---|---|
| | 31 Dec 2007 | 31 Dec 2006 | 31 Dec 2007 | 31 Dec 2006 |
| | % | % | $ | $ |
| Qian Hu Tat Leng Plastic Pte Ltd (Singapore) | 100 | 100 | 57,050 | 57,050 |
| Qian Hu Aquarium and Pets (M) Sdn Bhd and its subsidiary: (Malaysia) | 100 | 100 | 150,451 | 150,451 |
| - Qian Hu The Pet Family (M) Sdn Bhd (Malaysia) | 100 | 100 | - | - |
| Kim Kang Aquaculture Sdn Bhd and its subsidiary: (Malaysia) | 65 | 65 | 7,699,891 | 7,699,891 |
| - Kim Kang Frozen Food Sdn Bhd (formerly known as Qian Hu The Pet Family (KK) Sdn Bhd) (Malaysia) | 65 | 65 | - | - |
| Beijing Qian Hu Aquarium & Pets Co., Ltd (People's Republic of China) | 100 | 100 | 171,824 | 171,824 |
| Guangzhou Qian Hu Aquarium & Pets Accessories Manufacturing Co., Ltd (People's Republic of China) | 100 | 100 | 1,686,039 | 1,686,039 |
| Shanghai Qian Hu Aquarium and Pets Co., Ltd (People's Republic of China) | 100 | 100 | 1,086,516 | 1,086,516 |
| Qian Hu Marketing Co Ltd (Thailand) | 74 | 74 | 148,262 | 148,262 |
| Thai Qian Hu Company Limited (Thailand) | 60 | 60 | 121,554 | 121,554 |
| NNTL (Thailand) Limited (Thailand) | 49 * | 49 * | 30,999 | 30,999 |
| | | | 11,152,586 | 11,152,586 |

* The Company has voting control at general meetings & Board meetings of NNTL (Thailand) Limited.

KPMG Singapore is the auditor of all Singapore incorporated subsidiaries. Another member firm of KPMG International is the auditor of a significant foreign-incorporated subsidiary (as defined under Listing Rule 718 of the Singapore Exchange Listing Manual), namely Kim Kang Aquaculture Sdn Bhd and its subsidiary, Kim Kang Frozen Food Sdn Bhd.

**Notes to Balance Sheets (cont'd)**

(iv) **Investment in associate**

The details of associate are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **31 Dec 2007** | **31 Dec 2006** | **31 Dec 2007** | **31 Dec 2006** |
| | $ | $ | $ | $ |
| Unquoted equity investment - Arcadia Product PLC | 812,600 | - | 812,600 | - |
| Share of post-acquisition profit | 23,867 | - | - | - |
| | 836,467 | - | 812,600 | - |

In July 2007, the Company acquired a 20% equity interest in Arcadia Products PLC ("Arcadia"), an aquarium lamp manufacturer based in the United Kingdom, for an initial consideration of £264K (approximately S$813K). In addition, in the event that Arcadia achieves a net profit after tax ("PAT") of not less than £400K (the "Required PAT") in respect of Arcadia's financial year ending 30 June 2008 ("FY 2008"), the Company has agreed to pay a further consideration for the acquisition amounting to 20% of six times the amount of Arcadia's PAT less the amount of initial consideration already paid by the Company ("further consideration"). If the Required PAT is not achieved for FY 2008, the further consideration, calculated on the same abovementioned basis for the financial year ending 30 June 2009 ("FY 2009"), will be payable upon Arcadia achieving the Required PAT in FY 2009.

Accordingly, at as 31 December 2007, the cost of acquisition of the associate is determined on a provisional basis and it does not include the potential further consideration that is contingent on profit being maintained or achieved in future periods which cannot be measured reliably.

(v) **Intangible assets**

| | Group | | Company | |
|---|---|---|---|---|
| | **31 Dec 2007** | **31 Dec 2006** | **31 Dec 2007** | **31 Dec 2006** |
| | $ | $ | $ | $ |
| Trademarks/customer acquisition costs | 743,059 | 700,996 | 725,496 | 683,392 |
| Product listing fees | 196,153 | 196,153 | 196,153 | 196,153 |
| Goodwill on consolidation (restated) | 1,965,620 | 1,965,620 | - | - |
| | 2,904,832 | 2,862,769 | 921,649 | 879,545 |
| Less accumulated amortisation | (765,396) | (722,760) | (747,833) | (705,156) |
| | 2,139,436 | 2,140,009 | 173,816 | 174,389 |

Trademarks/customer acquisition costs relate to costs paid to third parties in relation to the acquisition of trademarks rights and existing customer base of two brands of pet food, namely "ARISTO-CATS YI HU" and "Nature's Gift". With the adoption of the revised FRS 38 *Intangible Assets*, trademarks/customer acquisition costs were determined to have indefinite lives and were no longer amortised but subjected to annual impairment testing.

Product listing fees relate to cost paid to third parties in relation to the entitlements to list and sell the Company's products in certain supermarkets, and are amortised over 3 years.

Goodwill on consolidation represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of subsidiaries acquired. It was stated at cost from the date of initial recognition and amortised over its estimated useful life of 20 years. With the adoption of FRS 103 *Business Combinations*, the Group discontinued amortisation of goodwill on consolidation. The remaining goodwill balance is subject to annual impairment testing.

**Notes to Balance Sheets (cont'd)**

## (vi) Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 31 Dec 2007 | 31 Dec 2006 | 31 Dec 2007 | 31 Dec 2006 |
| | $ | $ | $ | $ |
| Fish | 7,800,580 | 8,024,510 | 2,979,900 | 2,213,171 |
| Accessories | 13,627,378 | 13,329,875 | 4,057,776 | 4,036,779 |
| Plastics products - raw materials | 500,293 | 212,802 | - | - |
| Plastics products - finished goods | 496,702 | 504,244 | - | - |
| | 22,424,953 | 22,071,431 | 7,037,676 | 6,249,950 |
| Less allowance for inventory obsolescence | (416,350) | (424,109) | (322,560) | (330,319) |
| | 22,008,603 | 21,647,322 | 6,715,116 | 5,919,631 |

The increase in inventory balance was mainly due to additional purchases of raw material for plastics products in anticipation of the continuous increase in prices.

## (vii) Breeder stocks

| | Group | | Company | |
|---|---|---|---|---|
| | 31 Dec 2007 | 31 Dec 2006 | 31 Dec 2007 | 31 Dec 2006 |
| | $ | $ | $ | $ |
| As at 1 January | 1,721,800 | 1,721,800 | 245,800 | 245,800 |
| Less change in fair value less estimated point-of-sale costs attributable to physical changes | (300,930) | - | - | - |
| As at 31 December | 1,420,870 | 1,721,800 | 245,800 | 245,800 |

## (viii) Trade receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 31 Dec 2007 | 31 Dec 2006 | 31 Dec 2007 | 31 Dec 2006 |
| | $ | $ | $ | $ |
| Trade receivables | 19,676,399 | 17,435,551 | 8,609,654 | 9,193,501 |
| Less allowance for doubtful trade receivables | (2,069,699) | (1,522,502) | (1,769,160) | (1,231,265) |
| | 17,606,700 | 15,913,049 | 6,840,494 | 7,962,236 |

## (ix) Other receivables, deposits and prepayments

| | Group | | Company | |
|---|---|---|---|---|
| | 31 Dec 2007 | 31 Dec 2006 | 31 Dec 2007 | 31 Dec 2006 |
| | $ | $ | $ | $ |
| Other receivables | 362,165 | 379,278 | 201,650 | 103,121 |
| Deposits | 362,833 | 474,194 | 48,547 | 61,635 |
| Prepayments | 509,321 | 417,594 | 49,489 | 111,391 |
| Advances to employees | - | 15,474 | - | - |
| Advances to suppliers | 45,317 | 309,897 | - | - |
| Deposit for purchase of property, plant and equipment | 278,940 | - | 278,940 | - |
| Tax recoverable | 276,897 | 155,388 | - | - |
| | 1,835,473 | 1,751,825 | 578,626 | 276,147 |

**Notes to Balance Sheets (cont'd)**

(x) **Bills payable to banks**

The weighted average effective interest rates per annum of bills payable for the Group and the Company as at 31 December 2007 are 4.93% (2006: 4.87%) and 5.25% (2006: 5.25%) respectively. These bills mature within one to three months from the end of the year.

(xi) **Other payables and accruals**

| | Group | | Company | |
|---|---|---|---|---|
| | **31 Dec 2007** | **31 Dec 2006** | **31 Dec 2007** | **31 Dec 2006** |
| | $ | $ | $ | $ |
| Accrued operating expenses | 382,613 | 529,802 | 134,528 | 147,143 |
| Accrued staff costs | 2,177,374 | 1,198,720 | 1,755,252 | 1,006,315 |
| Other payables | 2,222,194 | 2,018,338 | 1,873,368 | 1,759,660 |
| | 4,782,181 | 3,746,860 | 3,763,148 | 2,913,118 |

(xii) **Finance lease obligations**

**Group**

| | **Payments** | **Interest** | **Principal** |
|---|---|---|---|
| **31 Dec 2007** | $ | $ | $ |
| Payable: | | | |
| After 1 year but within 5 years | 355,495 | (23,508) | 331,987 |
| Within 1 year | 184,531 | (19,682) | 164,849 |
| | 540,026 | (43,190) | 496,836 |
| **31 Dec 2006** | | | |
| Payable: | | | |
| After 1 year but within 5 years | 126,026 | (17,302) | 108,724 |
| Within 1 year | 210,598 | (28,875) | 181,723 |
| | 336,624 | (46,177) | 290,447 |

**Company**

| | **Payments** | **Interest** | **Principal** |
|---|---|---|---|
| **31 Dec 2007** | $ | $ | $ |
| Payable: | | | |
| After 1 year but within 5 years | 82,000 | (8,463) | 73,537 |
| Within 1 year | 67,929 | (8,197) | 59,732 |
| | 149,929 | (16,660) | 133,269 |
| **31 Dec 2006** | | | |
| Payable: | | | |
| After 1 year but within 5 years | 56,710 | (8,560) | 48,150 |
| Within 1 year | 95,665 | (15,989) | 79,676 |
| | 152,375 | (24,549) | 127,826 |

## Notes to Balance Sheets (cont'd)

### (xiii) Bank term loans

| | Group | | Company | |
|---|---|---|---|---|
| | 31 Dec 2007 | 31 Dec 2006 | 31 Dec 2007 | 31 Dec 2006 |
| | $ | $ | $ | $ |
| Due within 1 year: | | | | |
| Short term loans (unsecured) | 7,100,000 | 6,300,000 | 7,100,000 | 6,300,000 |
| Long-term loans, current portion | | | | |
| - secured | 29,826 | 40,448 | - | - |
| - unsecured | 227,267 | 196,263 | - | - |
| | 257,093 | 236,711 | - | - |
| | 7,357,093 | 6,536,711 | 7,100,000 | 6,300,000 |
| Due after 1 year: | | | | |
| Long-term loans | | | | |
| - secured | 111,276 | 128,507 | - | - |
| - unsecured | 1,434,290 | 552,913 | - | - |
| | 1,545,566 | 681,420 | - | - |
| | 8,902,659 | 7,218,131 | 7,100,000 | 6,300,000 |

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). As announced previously, the adoption of the amendments to FRS 39 *Financial Instruments: Recognition and Measurement - Financial Guarantee Contracts* (effective from financial years beginning on or after 1 January 2006), which required the Company to measure the financial guarantees given to financial institutions for bank borrowings of its subsidiaries at fair value upon inception of the guarantees, was assessed to have no material financial impact on the Group's financial statements.

QIAN HU CORPORATION LIMITED
(Company Registration No. : 199806124N)

1(c) **STATEMENT OF CASH FLOWS FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2007**

| | Group | | Group | |
|---|---|---|---|---|
| | 3 months ended 31 Dec | | Financial year ended 31 Dec | |
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| **Cash flows from operating activities** | | | | |
| Profit before taxation and minority interests | 2,141,114 | 1,612,804 | 7,919,479 | 5,311,458 |
| Adjustments for: | | | | |
| Bad trade receivables written off (back) | 6,448 | (257) | 6,624 | 81,304 |
| Depreciation of | | | | |
| - property, plant and equipment | 439,646 | 496,992 | 1,831,693 | 1,998,787 |
| - brooder stocks | 107,063 | 80,793 | 374,173 | 263,180 |
| Property, plant and equipment written off | 577 | - | 2,075 | - |
| (Gain) Loss on disposal of | | | | |
| - property, plant and equipment | (3,596) | 19,175 | (95,699) | (2,772) |
| - quoted equity investment | - | - | 1,032 | - |
| Change in fair values less estimated point-of-sale costs attributable to physical changes of breeder stocks | 300,930 | - | 300,930 | - |
| Amortisation of product listing fees | 12,072 | 12,976 | 42,678 | 43,582 |
| Allowance (Write back) for | | | | |
| - doubtful trade receivables | 92,277 | 190,792 | 592,965 | 294,880 |
| - due from associate (trade) | - | - | - | 70,000 |
| - inventory obsolescence | (115,900) | - | (2,900) | - |
| Share of profit of associate | (5,392) | - | (23,867) | - |
| Interest expenses | 208,136 | 177,383 | 839,772 | 705,525 |
| Interest income | (1,855) | (2,387) | (7,415) | (15,908) |
| **Operating profit before working capital changes** | 3,181,520 | 2,588,271 | 11,781,540 | 8,750,036 |
| (Increase) Decrease in: | | | | |
| Inventories | (110,922) | 772,985 | (408,393) | (1,410,609) |
| Trade receivables | (568,760) | (1,501,599) | (2,260,740) | (1,053,414) |
| Other receivables, deposits and prepayments | 96,686 | (174,622) | 59,760 | 61,781 |
| Due from associate (trade) | (606,454) | - | (1,655,630) | 7,538 |
| Increase (Decrease) in: | | | | |
| Trade payables | 400,449 | (888,273) | 1,343,913 | 1,546,906 |
| Bills payable to banks | 402,327 | 1,403,040 | (145,119) | 2,466,467 |
| Other payables and accruals | 773,548 | 368,219 | 1,032,656 | 256,403 |
| **Cash generated from operations** | 3,568,394 | 2,568,021 | 9,747,987 | 10,625,108 |
| Payment of income tax | (149,675) | (117,081) | (1,097,704) | (1,263,297) |
| **Net cash generated from operating activities** | 3,418,719 | 2,450,940 | 8,650,283 | 9,361,811 |

1(c) **STATEMENT OF CASH FLOWS FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2007 (cont'd)**

| | Group | | Group | |
|---|---|---|---|---|
| | 3 months ended 31 Dec | | Financial year ended 31 Dec | |
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| **Cash flows from investing activities** | | | | |
| Purchase of | | | | |
| - property, plant and equipment | (366,459) | (241,548) | (2,399,375) | (947,687) |
| - brooder stocks | (2,318,466) | (1,234,817) | (6,491,591) | (5,698,991) |
| Proceeds from disposal of | | | | |
| - property, plant and equipment | 3,990 | (3,259) | 134,401 | 108,178 |
| - quoted equity investment | - | - | 2,573 | - |
| Payment for | | | | |
| - trademarks/customer acquisition costs | (14,927) | - | (42,105) | (27,468) |
| - product listing fees | - | (33,290) | - | (33,290) |
| Investment in associate | - | - | (812,600) | - |
| Interest received | 1,855 | 2,387 | 7,415 | 15,908 |
| **Net cash used in investing activities** | (2,694,007) | (1,510,527) | (9,601,282) | (6,583,350) |
| **Cash flows from financing activities** | | | | |
| Proceeds from issuance of new shares (net) | 578,472 | - | 1,203,282 | - |
| Drawdown of | | | | |
| - bank term loans | - | - | 2,342,500 | 300,000 |
| - loans from minority shareholders of a subsidiary | 32,625 | 204,732 | 32,625 | 204,732 |
| Repayment of | | | | |
| - finance lease obligations | (53,240) | (60,534) | (221,567) | (298,759) |
| - bank term loans | (209,617) | (240,844) | (655,866) | (334,498) |
| - loans from minority shareholders of a subsidiary | (6,942) | - | (307,208) | (293,591) |
| Payment of dividends to equity holders | - | - | (634,054) | (515,492) |
| Interest paid | (206,365) | (182,657) | (838,820) | (723,022) |
| **Net cash generated from (used in) financing activities** | 134,933 | (279,303) | 920,892 | (1,660,630) |
| **Net increase (decrease) in cash and cash equivalents** | 859,645 | 661,110 | (30,107) | 1,117,831 |
| **Cash and cash equivalents at beginning of period/year** | 4,621,584 | 4,805,534 | 5,467,328 | 4,335,742 |
| Effect of exchange rate changes on cash balances held in foreign currencies | (31,286) | 684 | 12,722 | 13,755 |
| **Cash and cash equivalents at end of period/year (Note i)** | 5,449,943 | 5,467,328 | 5,449,943 | 5,467,328 |

## Notes to Statement of Cash Flows

(i) Cash and cash equivalents comprise:

| | Group | |
|---|---|---|
| | 31 Dec 2007 | 31 Dec 2006 |
| | $ | $ |
| Fixed deposits | 23,706 | 23,706 |
| Cash and bank balances | 7,492,720 | 5,617,192 |
| Bank overdraft | (2,066,483) | (173,570) |
| | 5,449,943 | 5,467,328 |

Fixed deposits bear average effective interest rate of 1.80% (2006: 1.80%) per annum with maturity one year from the end of the year. The fixed deposits are pledged to a financial institution to secure performance guarantees issued by that financial institution.

Cash and bank balances earn interest at floating rates based on daily bank deposit rates from 0.25% to 2.875% (2006: 0.94% to 3.05% per annum.

The average effective interest rate of bank overdraft of the Group is 8.0% (2006: 8.25%) per annum. The bank overdraft is repayable on demand.

(ii) 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 employee 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.

**QIAN HU CORPORATION LIMITED**
**(Company Registration No. : 199806124N)**

## 1(d) STATEMENT OF CHANGES IN EQUITY

| Group | Equity attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital $ | Share premium $ | Accumulated profits $ | Currency translation reserve $ | Total $ | Minority interests $ | Total Equity $ |
| **Balance at 1 Jan 2006** | 12,887,293 | 6,110,151 | 21,975,143 | (447,802) | 40,524,785 | 5,169,740 | 45,694,525 |
| Prior year adjustment by a subsidiary | - | - | - | - | - | (121,989) | (121,989) |
| **Balance at 1 Jan 2006, as restated** | 12,887,293 | 6,110,151 | 21,975,143 | (447,802) | 40,524,785 | 5,047,751 | 45,572,536 |
| Net loss recognised directly in equity: | | | | | | | |
| - Currency translation differences | - | - | - | (139,672) | (139,672) | (53,316) | (192,988) |
| Profit for the period | - | - | 2,617,170 | - | 2,617,170 | 1,270,026 | 3,887,196 |
| Total recognised income (expense) for the period | - | - | 2,617,170 | (139,672) | 2,477,498 | 1,216,710 | 3,694,208 |
| Transfer of share premium reserve to share capital [see Note below] | 6,110,151 | (6,110,151) | - | - | - | - | - |
| Payment of first and final dividend | - | - | (515,492) | - | (515,492) | - | (515,492) |
| **Balance at 31 Dec 2006** | 18,997,444 | - | 24,076,821 | (587,474) | 42,486,791 | 6,264,461 | 48,751,252 |
| Net gain (loss) recognised directly in equity: | | | | | | | |
| - Currency translation differences | - | - | - | 131,854 | 131,854 | (49,024) | 82,830 |
| Profit for the period | - | - | 946,524 | - | 946,524 | 286,091 | 1,232,615 |
| Total recognised income for the period | - | - | 946,524 | 131,854 | 1,078,378 | 237,067 | 1,315,445 |
| **Balance at 31 Mar 2007** | 18,997,444 | - | 25,023,345 | (455,620) | 43,565,169 | 6,501,528 | 50,066,697 |
| Net gain recognised directly in equity: | | | | | | | |
| - Currency translation differences | - | - | - | 92,728 | 92,728 | 34,606 | 127,334 |
| Profit for the period | - | - | 1,155,353 | - | 1,155,353 | 429,683 | 1,585,036 |
| Total recognised income for the period | - | - | 1,155,353 | 92,728 | 1,248,081 | 464,289 | 1,712,370 |
| Payment of first and final dividend | - | - | (634,054) | - | (634,054) | - | (634,054) |
| **Balance at 30 Jun 2007** | 18,997,444 | - | 25,544,644 | (362,892) | 44,179,196 | 6,965,817 | 51,145,013 |
| Net loss recognised directly in equity: | | | | | | | |
| - Currency translation differences | - | - | - | (172,762) | (172,762) | (81,660) | (254,422) |
| Profit for the period | - | - | 1,268,416 | - | 1,268,416 | 312,179 | 1,580,595 |
| Total recognised income (expense) for the period | - | - | 1,268,416 | (172,762) | 1,095,654 | 230,519 | 1,326,173 |
| Issue of new shares | 9,720,045 | - | - | - | 9,720,045 | - | 9,720,045 |
| Payment of special interim dividend | - | - | (9,095,235) | - | (9,095,235) | - | (9,095,235) |
| **Balance at 30 Sep 2007** | 28,717,489 | - | 17,717,825 | (535,654) | 45,899,660 | 7,196,336 | 53,095,996 |
| Net gain (loss) recognised directly in equity: | | | | | | | |
| - Currency translation differences | - | - | - | (58,396) | (58,396) | 98,130 | 39,734 |
| Profit for the period | - | - | 1,577,875 | - | 1,577,875 | 340,719 | 1,918,594 |
| Total recognised income (expense) for the period | - | - | 1,577,875 | (58,396) | 1,519,479 | 438,849 | 1,958,328 |
| Issue of new shares | 774,042 | - | - | - | 774,042 | - | 774,042 |
| Share issuance expenses | (195,570) | - | - | - | (195,570) | - | (195,570) |
| **Balance at 31 Dec 2007** | 29,295,961 | - | 19,295,700 | (594,050) | 47,997,611 | 7,635,185 | 55,632,796 |

Note: In accordance with the Companies (Amendment) Act 2005, with effect from 30 January 2006, the concepts of par value and authorized share capital were abolished and the shares of the company ceased to have a par value. The amount in the share premium reserve as at 30 January 2006 became part of the Company's share capital.

1(d) **STATEMENT OF CHANGES IN EQUITY (cont'd)**

| **Company** | **Share capital** $ | **Share premium** $ | **Accumulated profits** $ | **Total** $ |
|---|---|---|---|---|
| **Balance at 1 Jan 2006** | 12,887,293 | 6,110,151 | 16,774,724 | 35,772,168 |
| Total recognised income for the period: | | | | |
| - Profit for the period | - | - | 1,782,863 | 1,782,863 |
| Transfer of share premium reserve to share capital [see Note above] | 6,110,151 | (6,110,151) | - | - |
| Payment of first and final dividend | - | - | (515,492) | (515,492) |
| **Balance at 31 Dec 2006** | 18,997,444 | - | 18,042,095 | 37,039,539 |
| Total recognised income for the period: | | | | |
| - Profit for the period | - | - | 613,542 | 613,542 |
| **Balance at 31 Mar 2007** | 18,997,444 | - | 18,655,637 | 37,653,081 |
| Total recognised income for the period: | | | | |
| - Profit for the period | - | - | 505,085 | 505,085 |
| Payment of first and final dividend | - | - | (634,054) | (634,054) |
| **Balance at 30 Jun 2007** | 18,997,444 | - | 18,526,668 | 37,524,112 |
| Total recognised income for the period: | | | | |
| - Profit for the period | - | - | 1,146,581 | 1,146,581 |
| Issue of new shares | 9,720,045 | - | - | 9,720,045 |
| Payment of special interim dividend | - | - | (9,095,235) | (9,095,235) |
| **Balance at 30 Sep 2007** | 28,717,489 | - | 10,578,014 | 39,295,503 |
| Total recognised income for the period: | | | | |
| - Profit for the period | - | - | 280,996 | 280,996 |
| Issue of new shares | 774,042 | - | - | 774,042 |
| Share issuance expenses | (195,570) | - | - | (195,570) |
| **Balance at 31 Dec 2007** | 29,295,961 | - | 10,859,010 | 40,154,971 |

2 **AUDIT**

The full year financial statements have been audited by the Company's auditors.

3 **AUDITORS' REPORT**

See attached auditors' report.

4 **ACCOUNTING POLICIES**

Other than the adoption of new Financial Reporting Standards (FRS) as mentioned in paragraph 5 below, there were no changes in accounting policies and methods of computation adopted in the financial statements for the current reporting period as compared to the audited annual financial statements as at 31 December 2006.

5 **CHANGES IN ACCOUNTING POLICIES**

During the financial year, the Group and the Company adopted the amendments to FRS 1 *Presentation of Financial Statements – Capital Disclosures* and FRS 107 *Financial Instruments: Disclosures*, which took effect from financial year beginning from 1 January 2007. These changes in accounting policies are assessed to have no material impact to results or the opening balances of accumulated profits of the Group and of the Company for the year ended 31 December 2007.

## 6 EARNINGS PER ORDINARY SHARE (EPS)

| | Group | | Group | |
|---|---|---|---|---|
| | 3 months ended 31 Dec | | Financial year ended 31 Dec | |
| | 2007 | 2006 | 2007 | 2006 |
| EPS (based on consolidated net profit attributable to shareholders) | | | | |
| - on weighted average number of ordinary shares on issue (cents) | 0.39 | 0.25 | 1.34 | 0.74 |
| - on a fully diluted basis (cents) | 0.41 | 0.21 | 1.23 | 0.64 |

Earnings per ordinary share on existing issued share capital is computed based on the weighted average number of shares in issue during the financial year of 368,066,986 (2006: 355,300,149 restated).

Earnings per ordinary share on a fully diluted basis is computed based on the weighted average number of shares during the financial year adjusted to assume conversion of all potential dilutive ordinary shares of 402,357,596 (2006: 407,272,843 restated).

## 7 NET ASSET VALUE PER SHARE

| | Group | | Company | |
|---|---|---|---|---|
| | 31 Dec 2007 | 31 Dec 2006 | 31 Dec 2007 | 31 Dec 2006 |
| Net asset value per share based on existing issued share capital as at the respective dates (cents) | 13.51 | 37.83 | 9.75 | 28.74 |

Net asset value per share is computed based on the number of shares in issue as at 31 December 2007 of 411,911,279 (2006: 128,872,934).

## 8 REVIEW OF GROUP PERFORMANCE

### (a) Revenue

**Financial year 2007 vs financial year 2006**

| | Group | | | |
|---|---|---|---|---|
| | Financial year ended 31 Dec | | Increase | |
| | 2007 | 2006 | | |
| | $'000 | $'000 | $'000 | % |
| Fish | 45,336 | 39,598 | 5,738 | 14.5 |
| Accessories | 35,350 | 26,581 | 8,769 | 33.0 |
| Plastics | 11,034 | 9,932 | 1,102 | 11.1 |
| | 91,720 | 76,111 | 15,609 | 20.5 |

8 **REVIEW OF GROUP PERFORMANCE (cont'd)**

(a) **Revenue (cont'd)**

**Financial year 2007 vs financial year 2006 (cont'd)**

For the year ended 31 December 2007, our ornamental fish and accessories activities continued to be our core activities, which together accounted for 88% of our total revenue. Our revenue increased approximately by $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.

On a geographical basis, revenue from Singapore and overseas grew by 8.1% and 26.3% respectively in FY2007 as compared to FY2006. Revenue from our Singapore operations has shown improvement after having been through a process of consolidation. Both Singapore and overseas operations' constant efforts in expanding our distribution network into overseas untapped markets contributed to the increased in overseas revenue.

**4Q 2007 vs 4Q 2006**

| | Group | | Increase | |
|---|---|---|---|---|
| | 4Q 2007 $'000 | 4Q 2006 $'000 | $'000 | % |
| Fish | 11,603 | 10,090 | 1,513 | 15.0 |
| Accessories | 10,198 | 7,823 | 2,375 | 30.4 |
| Plastics | 2,822 | 2,800 | 22 | 0.8 |
| | 24,623 | 20,713 | 3,910 | 18.9 |

Our revenue increased by approximately $3.9 million or 18.9% from $20.7 million in the 4th quarter of 2006 to $24.6 million in the 4th quarter of 2007. All business activities continued to register growth in turnover during the current quarter as compared to its corresponding period in 2006.

**Fish**
Dragon Fish sales continue to dominate the growth in our ornamental fish revenue in the current quarter, coupled with our continuous effort to increase our export of ornamental fish to more customers and countries around the world from Singapore, Thailand and Malaysia, have given rise to the improved ornamental fish revenue in the current quarter as compared to the corresponding period in 2006. We 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**
As highlighted in previous announcements, with the domestic market stabilizes, 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 55% of the overall increase in accessories revenue in the current quarter as compared to its corresponding period in 2006. In addition, our Guangzhou factory's revenue was higher on a quarter-on-quarter basis as we managed to secure increasing manufacturing orders from our new and existing OEM customers since the 2nd half of 2006. Our subsidiaries in Malaysia, Thailand and China also managed to expand their distribution network in those countries to capture more sales in the current financial period as compared to its corresponding period in 2006.

8 **REVIEW OF GROUP PERFORMANCE (cont'd)**

(a) **Revenue (cont'd)**

**4Q 2007 vs 4Q 2006 (cont'd)**

**Plastics**
Revenue from our plastics activities remained relatively consistent in the current quarter, comparable to that of the corresponding period in 2006.

**4Q 2007 vs 3Q 2007**

| | Group | | Increase | |
|---|---|---|---|---|
| | 4Q 2007 | 3Q 2007 | | |
| | $'000 | $'000 | $'000 | % |
| Fish | 11,603 | 11,478 | 125 | 1.1 |
| Accessories | 10,198 | 8,465 | 1,733 | 20.5 |
| Plastics | 2,822 | 2,745 | 77 | 2.8 |
| | 24,623 | 22,688 | 1,935 | 8.5 |

Although the revenue from our ornamental fish and plastics activities registered marginal growth in the 4th quarter of 2007, our accessories revenue increased by $1.7 million, resulting in the increase in our overall revenue by $1.9 million or 8.5% in the current quarter as compared to that of the previous quarter.

**Fish**
During the 4th quarter of 2007, our ornamental fish export sales from Singapore and Thailand continued to generate higher revenue with more new markets. In addition, with the consistent demand for our Dragon Fish in both the domestic and overseas markets, we continue to record an increase in ornamental fish sales as comparable to that of the previous quarter.

**Accessories**
As the domestic market stabilizes, the growth in accessories revenue in the current quarter was mainly a result of better revenue contributions from our export sales as well as higher revenue from our Guangzhou factory as we managed to continue to secure, fulfill and deliver more orders in the current quarter as compared to the previous quarter.

**Plastics**
Our revenue from the plastics business is experiencing steady growth in the current quarter as compared to that of the previous quarter with an enlarged products and customer base.

8 **REVIEW OF GROUP PERFORMANCE (cont'd)**

(b) **Profitability**

**Financial year 2007 vs financial year 2006**

| | Group Financial year ended 31 Dec 2007 $'000 | Group Financial year ended 31 Dec 2006 $'000 | Increase (Decrease) $'000 | Increase (Decrease) % |
|---|---|---|---|---|
| Fish | 8,100 | 5,879 | 2,221 | 37.8 |
| Accessories | 1,803 | 588 | 1,215 | 206.6 |
| Plastics | 688 | 636 | 52 | 8.2 |
| Unallocated corporate expenses | (2,672) | (1,792) | (880) | (49.1) |
| | 7,919 | 5,311 | 2,608 | 49.1 |

Our operating profit before taxation increased by $2.6 million or 49.1% from $5.3 million in FY 2006 to $7.9 million in FY 2007. Profit after taxation attributable to equity holders of the Company increased by 89.1% from $2.6 million in FY 2006 to approximately $5.0 million in FY 2007. Our fish business was the main profit contributor in both financial years.

**4Q 2007 vs 4Q 2006**

| | Group 4Q 2007 $'000 | Group 4Q 2006 $'000 | Increase (Decrease) $'000 | Increase (Decrease) % |
|---|---|---|---|---|
| Fish | 2,316 | 1,626 | 690 | 42.4 |
| Accessories | 614 | 55 | 559 | 1,016.4 |
| Plastics | 130 | 194 | (64) | (33.0) |
| Unallocated corporate expenses | (919) | (263) | (656) | (249.4) |
| | 2,141 | 1,612 | 529 | 32.8 |

The better performance from all our business activities in the 4th quarter of 2007 has resulted in an overall increase in operating profit by $0.5 million or 32.8% as compared to its corresponding period in 2006 with contribution mainly from our ornamental fish business.

**Fish**

Operating profit from our ornamental fish business increased by approximately $0.7 million or 42.4% from $1.6 million to $2.3 million in the 4th quarter of 2007 as compared to its corresponding period in 2006. This was in line with the higher revenue recorded and better margins yielded from the sales of our self-bred Dragon Fish.

**Accessories**

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

8 **REVIEW OF GROUP PERFORMANCE (cont'd)**

(b) **Profitability (cont'd)**

**4Q 2007 vs 4Q 2006 (cont'd)**

**Plastics**
Despite registering stable revenue contribution, the operating profit from our plastics activities dipped on a quarter-on-quarter basis mainly due to slight erosion in profit margin as a result of increasing raw material (resins) prices.

Unallocated corporate expenses relating to staff costs and administrative expenses incurred were in relation to the overseeing of the Group's operations both locally and overseas. The increase was in accordance with the Group's expansion into more overseas markets.

**4Q 2007 vs 3Q 2007**

| | Group | | Increase (Decrease) | |
|---|---|---|---|---|
| | 4Q 2007 $'000 | 3Q 2007 $'000 | $'000 | % |
| Fish | 2,316 | 1,855 | 461 | 24.9 |
| Accessories | 614 | 524 | 90 | 17.2 |
| Plastics | 130 | 178 | (48) | (27.0) |
| Unallocated corporate expenses | (919) | (620) | (299) | (48.2) |
| | 2,141 | 1,937 | 204 | 10.5 |

**Fish**
Despite registering flat growth in turnover, the operating profit from our ornamental fish activities increased by approximately $0.5 million or 24.9% in the current quarter as compared to the previous quarter due to better margins yielded from the sales of our self-bred Dragon Fish and the difference in sales mix recorded in both quarters.

**Accessories**
Although with a much higher revenue from our Guangzhou factory as compared to its previous quarter, our accessories business registered a marginal profit as a result of our conscientious effort made to reduce our inventory level which has affected the profitability of our accessories business during the quarter.

**Plastics**
As mentioned earlier, despite registering stable revenue contribution, the operating profit from our plastics activities dipped in the 4$^{th}$ quarter of 2007 mainly due to slight erosion in profit margin as a result of increasing raw material (resins) prices.

9 **VARIANCE FROM PROSPECT STATEMENT**

There is no variance from the previous prospect statement.

10 **PROSPECTS**

2007 was a significant milestone for Qian Hu as it marked the completion of our restructuring exercise, as well as the turnaround of our financial performance. Our business model has become more robust and broad-based.

Our Group's future growth depends on:
- increase in our export of ornamental fish to more than 80 countries globally;
- escalation of our export of aquarium and pet accessories;
- continued growth of our breeding and sales of Dragon Fish;
- expansion of our pet accessories distribution network by leveraging on our own house-brands;
- ability to expand our distribution capabilities from owning the business to owning the customers;
- increase in our distribution points in China from 100 points to 150 points; and
- enhancement of our production efficiency and our strength in research & development.

**Increase in our export of ornamental fish**

Ornamental fish will continue to be an important core business activity of our Group. We are the only ornamental fish company in the world which is able to supply ornamental fish from four countries, namely Singapore, Malaysia, Thailand, and China. By exporting more fish to more customers and countries all over the world, while continue to expand the domestic distribution network of ornamental fish in the four countries mentioned above, we believe that there will be a positive contribution to our ornamental fish revenue moving forward. Currently, our Group export ornamental fish to more than 70 countries around the world. We intend to export ornamental fish to more than 80 countries globally in the coming years.

**Escalation of our export of aquarium and pet accessories**

With the acquisition of 20% stake in Arcadia Products PLC ("Arcadia") in July 2007, it enables us to make our 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, we export our aquarium accessories to approximately 20 countries around the world but with limited presence in Europe. Through Arcadia, we plan to set up a marketing arm in London to further establish our aquarium and pet accessories products in the Europe continent. We aim to export our aquarium and pet accessories products to as many countries as our ornamental fish export. It is our intention to grow our accessories revenue to be equivalent to that of ornamental fish.

**Continued growth of our breeding and sales of Dragon Fish**

China is a huge market for Dragon Fish, as is in Taiwan and Japan. Based on the improved sales recorded, we envisage that our Dragon Fish sales will continue to increase in the coming years. Our collaboration with Temasek Life Sciences Laboratory in researching the breeding behaviour of Dragon Fish has enabled us to increase the production of Dragon Fish in our farms, and hence enhance our Group's ability to meet the future growth in demand of Dragon Fish. Our "Qian Hu" Dragon Fish has gradually established itself as a premium brand in North East China.

**Expansion of our pet accessories distribution network by leveraging on our own house-brands**

In view of the ever-growing pet (e.g. dogs, cats and small animals, etc) market all over the world, we have started to accelerate our pace of distribution of pet accessories worldwide from Singapore as well as through our overseas subsidiaries by leveraging on our own house-brands, namely "BARK" and "Nature Gift" for dog accessories products; "Aristo-cats YI HU" for cat accessories products and "Delikate" for small animals. We envisage that the pet accessories distribution business will grow to become a significant business activity within the Group in the future.

10 **PROSPECTS (cont'd)**

**Ability to expand our distribution capabilities from owning the business to owning the customers**

In the process of professionalizing a highly fragmented ornamental fish and aquarium & pet accessories retail market, we have since set up 12 retail chain stores throughout the region which provide better services and a wider product range in a visually-stimulating shopping environment. These offer hobbyists and our customers a different and more enjoyable shopping experience. We will continue to set up more of these retail chain stores in the future, especially in Malaysia.

**Increase in our distribution points in China**

As at 31 December 2007, Qian Hu has more than 100 distribution points across China distributing our Dragon Fish and our own house-brands of aquarium accessories. We intend to further enhance our presence in China by increasing our marketing effort in penetrating the China market so as to increase the number of distribution points to 150 locations in Year 2008.

**Enhancement of our production efficiency and our strength in research & development**

Our Guangzhou factory produces aquarium accessories products for our suppliers, our subsidiaries and our customers. With the increasing orders for our manufactured products, coupled with the transfer of Arcadia's production facilities from UK to our Guangzhou factory by next year, the production output from our Guangzhou factory is expected to increase; as such, it is essential to enhance our factory's production efficiency and to strengthen our research and development ("R&D") capabilities. Arcadia has more than 40 years of experience in pursuing R&D on their products. Our strategic stake in the company will enable us to significantly strengthen our R&D in developing and improving our aquarium accessories products. We will also continue our effort in enhancing our R&D for our Dragon Fish so that we can be the most productive and profitable Dragon Fish company in the region.

With the increase in revenue from our ornamental fish operations, improvement in our accessories export business, coupled with the positive contributions from our Group's overseas operations in Malaysia, Thailand and China, accordingly, we expect our Group's revenue and profit will continue to increase in Year 2008.

11 **RISK FACTORS AND 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. We have institutionalized a comprehensive health management and quarantine system for all our domestic and overseas operations to ensure a consistently high standard of good health care management and hygiene for our fishes. Currently, all our domestic and overseas fish operations have attained ISO 9002 certification.

**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. Our Group currently operates in four countries with assets and activities spreading across the Asia Pacific. As at 31 December 2007, almost 70% of our Group's assets are located overseas as compared to 66% in FY 2006. Turnover from our overseas' customers constitute approximately 72% of the total turnover in FY 2007.

11 **RISK FACTORS AND RISK MANAGEMENT (cont'd)**

**Operational risk (cont'd)**

In view of our 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. Hence, a boarder base of significant customers reduces the risk of concentration in a single operation.

**Product risk**

For the year ended 31 December 2007, our Dragon Fish sales contributed approximately 25% of our Group total turnover. We sell over 500 species and varieties of ornamental fishes to more than 70 countries and are not reliant on the sale of any particular type or species of fish.

**Investment risk**

Our Group grows businesses through organic growth of our 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 professional 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 our Group arises from sales, purchases and borrowings that are denominated in currencies other than Singapore dollars. The currencies giving rise to this risk are primarily the United States dollar, Euro and Japanese Yen.

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

Foreign currencies received are kept in foreign currencies accounts and are converted to the respective measurement currencies of the Group companies on a need-to basis so as to minimise 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 our 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 our customers or suppliers contributes more than 5% of our Group's turnover and purchases. It is our Group's policy to sell to a diversity of creditworthy customers so as to reduce concentration of credit risk. Cash terms, advance payments are required for customers with lower credit standing.

While our Group faces the normal business risks associated with ageing collections, we have adopted a prudent accounting policy of making specific provisions once trade debts are deemed not collectible. Accordingly, our 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 our Group on an on-going basis with the objective to limit the extent to which our Group's results could be affected by an adverse movement in interest rate.

11 **RISK FACTORS AND RISK MANAGEMENT (cont'd)**

**Interest rate risk (cont'd)**

Our Group's cash balances are placed with reputable banks and financial institutions. For financing obtained through bank borrowings and finance lease arrangements, our 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 our Group has sufficient funds to meet its contractual and financial obligations as and when they fall due. To manage liquidity risk, our 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**

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

12 **DIVIDEND**

(a) **Present period**

| Name of dividend | Special Interim | Final |
|---|---|---|
| Dividend type | Cash | Nil |
| Dividend rate | 8.54 cents per ordinary share (less tax) | Nil |
| Tax rate | 18.0% | Nil |

The Company paid approximately $9.1 million of special interim cash dividend on 25 September 2007. The Directors do not propose a final dividend in respect of the financial year ended 31 December 2007.

(b) **Previous corresponding period**

| Name of dividend | First & final |
|---|---|
| Dividend type | Cash |
| Dividend rate | 0.6 cents per ordinary share (less tax) |
| Tax rate | 18.0% |

(c) **Total annual dividend**

| | Latest year | Previous year |
|---|---|---|
| | $'000 | $'000 |
| Ordinary | 9,095 | 634 |
| Preference | - | - |
| Total: | 9,095 | 634 |

(d) **Date payable**

Not applicable.

(e) **Books closure date**

Not applicable.

13 **SEGMENT INFORMATION**

## (a) Business segments

| Group | Fish $'000 | Accessories $'000 | Plastics $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|---|
| | Financial year ended 31 Dec 2007 | | | | |
| **Revenue** | | | | | |
| External revenue | 45,336 | 35,350 | 11,034 | - | 91,720 |
| Inter-segment revenue | 8,448 | 13,214 | 151 | (21,813) | - |
| **Total Revenue** | 53,784 | 48,564 | 11,185 | (21,813) | 91,720 |
| **Results** | | | | | |
| Segment results | 8,514 | 1,847 | 689 | (734) | 10,316 |
| Unallocated expenses | | | | | (1,589) |
| | | | | | 8,727 |
| Financial expenses - net | | | | | (832) |
| | | | | | 7,895 |
| Share of profit of associate | | | | | 24 |
| Profit before taxation | | | | | 7,919 |
| Taxation | | | | | (1,602) |
| **Profit for the year** | | | | | 6,317 |
| **Net profit margin** | **18.8%** | **5.2%** | **6.2%** | | **6.9%** |
| **Assets and Liabilities** | | | | | |
| Segment assets | 53,436 | 26,888 | 3,977 | - | 84,301 |
| Investment in associate | | | | | 2,492 |
| Unallocated assets | | | | | 2,030 |
| **Total Assets** | | | | | 88,823 |
| Segment liabilities | 11,734 | 4,597 | 1,684 | - | 18,015 |
| Unallocated liabilities | | | | | 15,175 |
| **Total Liabilities** | | | | | 33,190 |
| **Other Segment Information** | | | | | |
| Capital expenditure | 8,583 | 614 | 121 | - | 9,318 |
| Depreciation and amortisation | 1,263 | 817 | 169 | - | 2,249 |
| Other non-cash expenses (income) | 579 | 238 | (12) | - | 805 |

13 **SEGMENT INFORMATION (cont'd)**

(a) **Business segments (cont'd)**

| | Financial year ended 31 Dec 2006 | | | | |
|---|---|---|---|---|---|
| | **Fish** | **Accessories** | **Plastics** | **Eliminations** | **Total** |
| **Group** | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | | | | | |
| External revenue | 39,598 | 26,581 | 9,932 | - | 76,111 |
| Inter-segment revenue | 8,291 | 10,279 | 144 | (18,714) | - |
| **Total Revenue** | 47,889 | 36,860 | 10,076 | (18,714) | 76,111 |
| **Results** | | | | | |
| Segment results | 6,150 | 642 | 638 | (84) | 7,346 |
| Unallocated expenses | | | | | (1,345) |
| | | | | | 6,001 |
| Financial expenses - net | | | | | (690) |
| Profit before taxaton | | | | | 5,311 |
| Taxation | | | | | (1,424) |
| **Profit for the year** | | | | | 3,887 |
| **Net profit margin** | **15.5%** | **2.4%** | **6.4%** | | **5.1%** |
| **Assets and Liabilities** | | | | | |
| Segment assets | 43,427 | 26,464 | 3,644 | - | 73,535 |
| Unallocated assets | | | | | 2,054 |
| **Total Assets** | | | | | 75,589 |
| Segment liabilities | 11,631 | 2,928 | 1,653 | - | 16,212 |
| Unallocated liabilities | | | | | 10,625 |
| **Total Liabilities** | | | | | 26,837 |
| **Other Segment Information** | | | | | |
| Capital expenditure | 6,345 | 274 | 143 | - | 6,762 |
| Depreciation and amortisation | 1,256 | 838 | 212 | - | 2,306 |
| Other non-cash expenses | 199 | 240 | 4 | - | 443 |

13 **SEGMENT INFORMATION (cont'd)**

(b) **Geographical segments**

| | Revenue Financial year ended 31 Dec | | Segment assets Financial year ended 31 Dec | | Capital expenditure Financial year ended 31 Dec | |
|---|---|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| **Group** | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Singapore | 26,103 | 24,147 | 27,178 | 25,987 | 527 | 381 |
| Other Asian countries | 38,150 | 35,061 | 59,153 | 49,602 | 8,791 | 6,381 |
| Europe | 18,637 | 12,636 | 2,492 | - | - | - |
| Others | 8,830 | 4,267 | - | - | - | - |
| **Total** | 91,720 | 76,111 | 88,823 | 75,589 | 9,318 | 6,762 |

14 **BREAKDOWN OF REVENUE**

| **Group** | **Fish** $'000 | **Accessories** $'000 | **Plastics** $'000 | **Total** $'000 |
|---|---|---|---|---|
| **4Q 2007** | | | | |
| Singapore (including domestic sales & sales to Singapore) | 1,581 | 1,831 | 2,811 | 6,223 |
| Overseas (including export to & sales in overseas) | 10,022 | 8,367 | 11 | 18,400 |
| **Total revenue** | 11,603 | 10,198 | 2,822 | 24,623 |
| **4Q 2006** | | | | |
| Singapore | 1,991 | 1,703 | 2,752 | 6,446 |
| Overseas | 8,099 | 6,120 | 48 | 14,267 |
| **Total revenue** | 10,090 | 7,823 | 2,800 | 20,713 |

| **Group** | **Fish** $'000 | **Accessories** $'000 | **Plastics** $'000 | **Total** $'000 |
|---|---|---|---|---|
| **Financial year ended 31 Dec 2007** | | | | |
| Singapore (including domestic sales & sales to Singapore) | 7,695 | 7,506 | 10,902 | 26,103 |
| Overseas (including export to & sales in overseas) | 37,641 | 27,844 | 132 | 65,617 |
| **Total revenue** | 45,336 | 35,350 | 11,034 | 91,720 |
| **Financial year ended 31 Dec 2006** | | | | |
| Singapore | 7,956 | 6,630 | 9,561 | 24,147 |
| Overseas | 31,642 | 19,951 | 371 | 51,964 |
| **Total revenue** | 39,598 | 26,581 | 9,932 | 76,111 |

15 **QUARTERLY ANALYSIS**

| | **2007** | **2006** | **Increase** |
|---|---|---|---|
| | $'000 | $'000 | % |
| **Revenue** | | | |
| 1st Quarter | 21,981 | 18,139 | 21.2 |
| 2nd Quarter | 22,428 | 18,289 | 22.6 |
| 3rd Quarter | 22,688 | 18,970 | 19.6 |
| 4th Quarter | 24,623 | 20,713 | 18.9 |
| | 91,720 | 76,111 | 20.5 |
| **Profit before taxation** | | | |
| 1st Quarter | 1,668 | 1,088 | 53.3 |
| 2nd Quarter | 2,173 | 1,597 | 36.1 |
| 3rd Quarter | 1,937 | 1,014 | 91.0 |
| 4th Quarter | 2,141 | 1,612 | 32.8 |
| | 7,919 | 5,311 | 49.1 |
| **Profit after taxation and minority interests** | | | |
| 1st Quarter | 947 | 522 | 81.4 |
| 2nd Quarter | 1,155 | 594 | 94.4 |
| 3rd Quarter | 1,268 | 632 | 100.6 |
| 4th Quarter | 1,578 | 869 | 81.6 |
| | 4,948 | 2,617 | 89.1 |

- **Revenue**

  Following the consolidation process in both the domestic (Singapore) and Malaysia markets for the ornamental fish and accessories products, our Group's revenue grew steadily in each quarter of 2007.

  Our ornamental fish and accessories business accounted for more than 35% and 55% of the increase in current year's revenue respectively. Our continuous effort in increasing our export market for ornamental fish and accessories to more customers and to more countries around the world, coupled with the continuous rising demand of Dragon Fish during the financial year, has resulted in the improved revenue contributions.

  In addition, with improved efficiency, our Guangzhou factory managed to increase its revenue contributions in 2007 by securing, fulfilling and delivering increasing number of production orders every quarter since the 2nd half of 2006.

- **Profitability**

  The increase in our Group's overall profitability during the financial year was due to:
  - increase in sales of our self-bred Dragon Fish with better margin yield;
  - increase in export sales of both ornamental fish and accessories;
  - more production orders delivered by our Guangzhou factory which led to the improvement in operational efficiency; and
  - improved profitability from our retail chain stores throughout the region.

**BY ORDER OF THE BOARD**

Kenny Yap Kim Lee
Executive Chairman and Managing Director
14/01/2008

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

Telephone +65 6213 3388
Fax +65 6225 0984
Internet www.kpmg.com.sg

# Independent auditors' report

Members of the Company
Qian Hu Corporation Limited

We have audited the accompanying financial statements of Qian Hu Corporation Limited (the Company) and its subsidiaries (the Group), which comprise the balance sheets of the Group and the Company as at 31 December 2007, the income statements and statements of changes in equity of the Group and the Company, and the cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages FS1 to FS54. The financial statements for the year ended 31 December 2006 were audited by another firm of auditors whose report dated 15 January 2007 expressed an unqualified opinion on those financial statements.

*Directors' responsibility for the financial statements*

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion:

(a) the consolidated financial statements of the Group and the balance sheet, income statement and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 and the results and changes in equity of the Group and of the Company and cash flows of the Group for the 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.

KPMG

**KPMG**
*Certified Public Accountants*

**Singapore**
**14 January 2008**