



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

**RESPONSES TO QUESTIONS FROM
SECURITIES INVESTORS ASSOCIATION (SINGAPORE)**

Qian Hu Corporation Limited (“**Qian Hu**” or the “**Company**” and together with its subsidiaries, the “**Group**”) has received questions raised by the Securities Investors Association (Singapore) (“**SIAS**”) through email with reference to the Annual Report 2022 (“**Annual Report**”) for the financial year ended 31 December 2022 (“**FY 2022**”). Below are the responses from the management:

Q1

(i) Does management see any evidence that fishkeeping as a hobby may decline in popularity as the world re-opens and more people return to their offices and schools?

On the contrary, fishkeeping continues to be a popular hobby. Benefits associated with fishkeeping include lowering stress levels, improving focus and creativity, as well as reducing anxiety. While the pandemic saw a jump in demand for ornamental fish, based on the Group’s recurring revenue registered in FY 2022, we did not see a decline in its popularity following the gradual re-opening of the international borders and more people returning to work. The demand for ornamental fish from our customers remained stable which demonstrates the resilience of the industry. In fact, new developments and advancements in the aquarium industry have made the hobby much more interesting and exciting. Social media has also made it more convenient for the exchange of information among hobbyists. In addition, with new aquarium technologies and the diverse range of fish species to choose from, the growing interest in aquarium fish has resulted in a steady increase in ornamental fish trade globally.

(ii) What is the size of the total addressable market for AI/IoT aquaculture solutions in Asia, especially the markets of Malaysia, Thailand, Vietnam and China?

We do not have sufficient reliable data/information to provide a meaningful response.

(iii) Will the group be appointed the exclusive distributor in Vietnam and China?

As disclosed on page 11 of the Annual Report, Qian Hu is the exclusive distributor of AquaEasy’s aquaculture systems in Malaysia and Thailand and it is working on a Chinese version for the China market. It also mentioned that AquaEasy has established direct partnerships with key aquaculture players in Indonesia and Vietnam with regard to the adoption of its solutions in those countries. As such, AquaEasy does not intend to appoint exclusive distributors in these locations.

(iv) Can management also help shareholders better understand AquaEasy’s unique selling point when compared to the competitors?

(v) Is AquaEasy compatible and/or synergistic with the group’s HYDROPURE technology? Further to the case study on page 60 of the annual report, can management quantify the benefits of deploying AquaEasy based on the group’s experience in its own farms, in terms of improvement in feed conversion ratio/feed efficiency, stocking ratio, mean body weight, growth rate, diseases outbreaks, water and energy usage, manpower etc?

Qian Hu’s proprietary filtration technology, HYDROPURE, removes all the undesired toxic compounds in the water and retains all desired components that are required by the aquatic organisms in the aquarium. It therefore has the unique capability of keeping the fish tank clean and fuss-free.

AquaEasy's artificial intelligence (AI) and Internet of Things (IoT)-based solutions monitor water parameters of the ponds. AquaEasy offers a holistic comprehensive system which comprises of a powerful application and uses the best sensor in the industry, coupled with strong IoT team support.

These are two different standalone technologies which can be used separately or in conjunction with each other.

As mentioned on page 60 of the Annual Report, Qian Hu has deployed AquaEasy's AI and IoT-based solutions in its shrimp farming by using sound sensors to keep track of several aspects of the ponds condition, including dissolved oxygen level, water pH, detecting the movement and activities of the shrimps. Through AI technology, the applications can "read" the shrimps' behaviour, monitor their degree of hunger, set the appropriate feeding time and administer the amount of feeds required. These real-time information obtained from the sensor readings would enable farmers to maintain the best possible conditions for the shrimps while reducing risks and costs. In addition, the data collected provides trends and analyses in enhancing efficiency, productivity, and the implementation of sustainability aquaculture practices.

Based on past trials, we managed to semi-automate our shrimp farming process and achieved an output of approximately 10 kilogramme per square meter versus output of 1 kilogramme per square meter using the traditional farming method. However, we do not think that this is an appropriate platform to divulge other detailed quantifiable data and/or analyses on the deployment of the AquaEasy solutions.

- (vi) The company has invested \$1 million in an unsecured 5% convertible loan issued by AquaEasy that matures on 30 June 2023. What is the company's intention with regard to the convertible loan?**

We are of the view that it is more appropriate to disclose our plan for the convertible loan when it materialises. Timely SGXNET announcements will be made in this regard.

- (vii) Separately, the group has leased 16 ponds in Singapore to expand its shrimp farming capacity. What are the production capacities in Singapore and Hainan? How much livestock was produced and sold in Singapore and China in 2022?**

The Group has leased 16 ponds in Singapore from a third-party farm since July 2022 to expand its shrimp farming capacity locally. In Hainan, the Group farms edible fish fingerlings for supply to the domestic markets in China as well as export to overseas markets. In addition, our Hainan farm exports a variety of edible fish to South-east Asian countries, including Singapore.

The Group does not engage in the production (breeding) of livestock in both Singapore and Hainan.

- (viii) In its business segments, the group recognises revenue from fish farming, breeding, distribution and trading of ornamental and edible fish/seafood as a single "Fish" segment. What is the breakdown between ornamental fish-related revenue and edible fish-related revenue?**

The aquaculture business, which revolved around the farms in Hainan Province (China), started in FY 2017, had since overcome various teething issues and managed to grasp the mechanics of running this business. The aquaculture business has created a platform to open up more business opportunities for the Group, and at the same time, inaugurate collaboration with other parties in the aquaculture industry.

Nevertheless, as disclosed previously, the business was impacted significantly by the massive lockdowns in China to suppress the escalation of Covid-19, coupled with the extensive reduction of air cargo capacity and flight frequencies during the pandemic since FY 2020,

which had hindered its growth. We saw a recuperation of aquaculture revenue, with a stable flow of customers' orders, only from the 2nd half of 2022 with the lifting of border restrictions and the gradual resumption of air traffic. Accordingly, the revenue derived from our aquaculture business was less than 5% and less than 10% of the Group's total revenue and fish revenue respectively, which is deemed insignificant to be disclosed as a separate business segment.

At present, the progress of the Group's aquaculture business has been satisfactory and back on track.

Q2

- (i) ***Has the board analysed the trend in value-added per employee given that the group aspires to be the most productive provider in the space? If so, is the board satisfied with the progress made by the group in improving its productivity?***

We acknowledge the challenging operating environment that we face while managing a range of diversified business activities within the Group. The value-added per employee tabulated in the value-added statements on page 33 of the Annual Report were related to the Group's business activities in three business segments and five locations. It was inevitable that certain business operations and locations faced different operational challenges over the years, and hence, the value-added per employee registered by each business segment and location would differ. It was also evident that the established entities would deliver more resilient and stable performance, while the results from the entities that underwent transformation and consolidation would be affected.

The Board discussed and analysed the productivity data annually, taking into consideration the various circumstances & insights, the respective business cycles, as well as the overall corporate strategies to propose and execute appropriate adjustments without compromising the Group's long-term directions. Throughout the past 20 years, we saw fluctuations in the average value-added per employee numbers for various reasons mentioned above, including changes in business strategies resulting in the acquisitions and disposals of subsidiaries. Nevertheless, we managed to stabilise the value-added per employee figures in the recent five years, channeling efforts into strengthening our fundamentals and streamlining our overseas operations. Qian Hu will continue to strive to become the most productive provider of sustainable aquaculture products, ornamental fish and aquarium and pet accessories.

- (ii) ***Who is leading the group's productivity drive?***
- (iii) ***What guidance has the board provided to management to improve in this area? Can management elaborate in greater detail the steps to be taken to improve the group's productivity as measured by valued-added per employee?***

The Group's productivity drive is led by the CEO. It has always been the Group's priority to improve its productivity figures through attaining better profitability and/or deploying fewer number of employees.

As mentioned on page 12 of the Annual Report, one significant project in progress which could achieve optimal efficiency is the cloud-based "One Qian Hu" digitalisation initiative which seeks to revolutionise operational efficiency by automating all process while integrating all the subsidiaries in a single platform. Barring any unforeseen circumstances, all our units in Singapore will have undergone the digitalisation transformation by the end of June 2023. We will next share our experience in Singapore with our subsidiaries in Malaysia, Thailand, Indonesia and China from the 2nd half of 2023.

Other efforts include the continuous review of the organisational workflow in order to align employees internally so as to reduce overlapping of responsibilities and duplicated work, as well as looking into the upskilling and professional development of the workforce.

- (iv) Similarly, has the board analysed the trend of value-added per dollar of employment cost? If so, how will the board be addressing this downward trend?**

The value-added per dollar of employment cost tabulated in the value-added statements on page 33 of the Annual Report was similarly affected by the reasons as stated in our response to Q2 (i) above. The downward trend was more apparent in view of the escalation in manpower costs. Nevertheless, with the successful implementation of the initiatives mentioned above, we strive to improve the value-added per dollar of employment cost in the coming years.

Q3

- (i) Can the board/audit & risk management committee (“ARMC”) help shareholders better understand the reason(s) for the change in internal auditor?**

The ARMC was informed by the previous internal audit firm (EisnerAmper PAC Singapore) that due to a manpower crunch, it did not have sufficient staff to carry out Qian Hu’s internal audit work for FY 2022. Hence, the need for the change in internal auditor.

- (ii) How was the new internal auditor selected?**

The new internal auditor was selected based on the credentials of the audit firm and the experience of the audit engagement team. More details can be found in our SGXNET announcement released on 15 March 2023.

- (iii) Can the ARMC confirm that the internal auditor complies with the standards set by nationally or internationally recognised professional bodies, such as the International Standards for the Professional Practice of Internal Auditing (IIA Standards) issued by the Institute of Internal Auditors?**

As stated in our response to SGX’s clarification released on 15 March 2023, the internal audit work carried out was guided by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

- (iv) What were the scope, key findings and recommendations by the internal auditor for FY2021 and FY2022?**

The internal audit work for FY 2021 and FY 2022 were carried out in Singapore and Malaysia respectively. The internal audit coverage included credit control and assessment, review of the revenue and collection cycle, as well as the review of the procurement and payment cycle for both years. For FY 2022, the internal auditor also conducted a review of Qian Hu’s sustainability reporting process.

The findings raised by the internal auditors were mainly related to the formalisation and/or standardisation of certain policies and procedures of the Group. These were observations highlighted by the internal auditors for improvement purposes, which were not considered material internal control weaknesses. All recommendations have been agreed upon and accepted by the management. A follow-up review will be carried out when the internal auditor next visit to the location.

- (v) Can the ARMC confirm that the major foreign subsidiaries in Malaysia, China, Thailand and Indonesia were included in the internal audit? How was the internal audit carried out for these foreign subsidiaries?**

ARMC confirmed that all the locations are subjected to internal audit review on a rotational basis. The internal audit team from Singapore visits the respective locations to conduct the review.

(vi) *What is the level of oversight by the ARMC on the actions taken by management to follow up on the recommendations?*

The internal audit reports containing identified issues and corrective action plans are presented to the ARMC. All the observations on internal controls, operational and/or human lapses and recommendations to address them were also reviewed and discussed at the ARMC meetings. Thereafter, the progress of the corrective action plans is monitored, with past due action plans reported back to the ARMC.

By Order of the Board

Kenny Yap Kim Lee
Executive Chairman
22 March 2023