



## QIAN HU CORPORATION LIMITED

### FULL YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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## QIAN HU CORPORATION LIMITED

### FULL YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

#### 1(a) STATEMENT OF PROFIT AND LOSS FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Note	Group			Group		
		3 months ended 31 Dec			Financial year ended 31 Dec		
		2004	2003	Change	2004	2003	Change
		\$'000	\$'000	%	\$'000	\$'000	%
Turnover		15,524	16,676	(6.9)	65,492	67,680	(3.2)
Cost of sales		(9,791)	(10,077)	(2.8)	(42,538)	(42,312)	0.5
<b>Gross profit</b>		<b>5,733</b>	<b>6,599</b>	<b>(13.1)</b>	<b>22,954</b>	<b>25,368</b>	<b>(9.5)</b>
Other operating income		70	127	(44.9)	170	202	(15.8)
		<b>5,803</b>	<b>6,726</b>	<b>(13.7)</b>	<b>23,124</b>	<b>25,570</b>	<b>(9.6)</b>
Selling & distribution expenses	i	(624)	(564)	10.6	(2,465)	(1,829)	34.8
General & administration expenses	ii	(4,346)	(3,270)	32.9	(16,795)	(13,973)	20.2
<b>Profit from operations</b>	iii	<b>833</b>	<b>2,892</b>	<b>(71.2)</b>	<b>3,864</b>	<b>9,768</b>	<b>(60.4)</b>
Interest expenses	iv	(159)	(38)	NM	(380)	(221)	71.9
Interest income		-	5	(100.0)	3	7	(57.1)
		<b>674</b>	<b>2,859</b>	<b>(76.4)</b>	<b>3,487</b>	<b>9,554</b>	<b>(63.5)</b>
Share of associates results		-	-	-	(66)	-	NM
<b>Profit before taxation</b>		<b>674</b>	<b>2,859</b>	<b>(76.4)</b>	<b>3,421</b>	<b>9,554</b>	<b>(64.2)</b>
Taxation	v	(431)	(754)	(42.8)	(1,212)	(1,784)	(32.1)
		<b>243</b>	<b>2,105</b>	<b>(88.5)</b>	<b>2,209</b>	<b>7,770</b>	<b>(71.6)</b>
Minority interests		(97)	(410)	(76.3)	(582)	(754)	(22.8)
<b>Net profit attributable to Members of the Company</b>		<b>146</b>	<b>1,695</b>	<b>(91.4)</b>	<b>1,627</b>	<b>7,016</b>	<b>(76.8)</b>
Gross profit margin		36.9%	39.6%		35.0%	37.5%	
Net profit margin		0.9%	10.2%		2.5%	10.4%	
Return on equity		-	-		4.3%	19.2%	

NM: Not Meaningful

#### Notes to Statement of Profit and Loss

##### (i) **Selling & distribution expenses**

The increase in selling and distribution expenses in the 4th quarter and in 2004 as compared to 2003 was mainly due to promotion costs incurred in relation to the newly set up retail chain stores throughout the region.

##### (ii) **General & administration expenses**

The increase in general and administration expenses in the current year is in line with the expansion of the Group's operations.

Kim Kang Aquaculture Sdn Bhd and PT Qian Hu Aquarium & Pets, which became subsidiaries of the Group in July 2003 and January 2004 respectively, also contributed to the increase in general and administration expenses as compared to its corresponding period in 2003.



## QIAN HU CORPORATION LIMITED

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

#### (iii) Profit from operations

This is determined after charging (crediting) the following:

	Group		Group	
	3 months ended 31 Dec	3 months ended 31 Dec	Financial year ended 31 Dec	Financial year ended 31 Dec
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Auditors' remuneration				
- auditors of the Company	4	11	66	62
- other auditors	3	1	12	11
Non-audit fees				
- auditors of the Company	2	5	14	17
- other auditors	15	15	15	15
Directors' fees				
- directors of the Company	15	5	30	30
Directors' remuneration				
- directors of the Company	163	141	531	498
- directors of subsidiaries	170	117	610	385
Amortisation of				
- land use rights	-	-	-	2
- trademarks/customer acquisition costs, product listing fees	21	10	58	42
- goodwill on consolidation	60	41	91	41
Bad trade receivables written off	2	-	15	-
Depreciation of				
- property, plant and equipment	506	385	1,936	1,563
- brooder stocks	34	37	146	91
Property, plant and equipment written off	-	9	-	13
Loss (gain) on disposal of				
- property, plant and equipment	3	(23)	2	(35)
- land use rights	-	-	-	(9)
- a subsidiary	-	-	55	-
Provision for				
- doubtful trade receivables	167	56	385	286
- due from associates	80	-	80	-
Provision for doubtful non-trade receivables written back	(6)	-	(6)	-
Operating lease expenses	173	216	694	608
Personnel expenses *	2,366	1,992	8,940	7,924
Exchange loss (gain), net	67	(208)	187	(280)
Gain arising from changes in fair values less estimated point-of-sale costs attributable to physical changes of breeder stocks	(166)	(1,044)	(228)	(1,494)

\* Include directors' fees and remuneration.

#### (iv) Interest expenses

The increase in interest expenses was mainly due to interest incurred on additional bank borrowings during the year.



## QIAN HU CORPORATION LIMITED

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

#### (v) Taxation

	<u>Group</u>		<u>Group</u>	
	<u>3 months ended 31 Dec</u>	<u>3 months ended 31 Dec</u>	<u>Financial year ended 31 Dec</u>	<u>Financial year ended 31 Dec</u>
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	\$'000	\$'000	\$'000	\$'000
Current tax				
- current year	198	138	979	1,168
- under provision in respect of prior year	30	-	30	-
Deferred tax				
- current year	203	616	203	616
	<u>431</u>	<u>754</u>	<u>1,212</u>	<u>1,784</u>

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

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

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



## QIAN HU CORPORATION LIMITED

### 1(b) BALANCE SHEETS

	Note	Group		Company	
		31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
		\$	\$	\$	\$
<b>Share capital and reserves</b>					
Share capital	i	12,821,124	10,626,847	12,821,124	10,626,847
Reserves		24,808,117	25,924,237	20,628,183	20,840,909
		<b>37,629,241</b>	<b>36,551,084</b>	<b>33,449,307</b>	<b>31,467,756</b>
Minority interests		4,760,704	4,180,208	-	-
		<b>42,389,945</b>	<b>40,731,292</b>	<b>33,449,307</b>	<b>31,467,756</b>
<b>Property, plant and equipment</b>					
Property, plant and equipment		14,060,956	12,897,075	3,565,915	4,173,300
Brooder stocks	ii	6,926,116	7,337,702	1,313,550	1,342,740
Investments in subsidiaries	iii	-	-	9,347,890	8,975,428
Investments in associates	iv	-	66,444	28,722	28,722
Quoted equity investments, at cost		3,564	3,729	-	-
Intangible assets	v	1,845,309	861,109	103,434	78,695
Land use rights	vi	-	89,814	-	-
<b>Current assets</b>					
Inventories	vii	19,909,846	14,722,453	5,211,774	4,634,226
Breeder stocks		1,721,800	1,493,690	245,800	188,000
Trade receivables	viii	13,674,424	13,120,593	6,685,375	6,886,499
Other receivables, deposits and prepayments	ix	1,792,476	1,764,739	280,184	269,312
Due from					
- subsidiaries (trade)		-	-	15,196,986	9,572,643
- subsidiaries (non-trade)		-	-	3,130,522	1,532,154
- associates (trade)		794,471	662,105	563,627	636,625
Fixed deposits		23,046	101,594	23,046	23,046
Cash and bank balances		4,129,912	4,125,387	2,558,016	2,809,258
		<b>42,045,975</b>	<b>35,990,561</b>	<b>33,895,330</b>	<b>26,551,763</b>
<b>Current liabilities</b>					
Trade payables		4,182,423	4,347,183	2,020,268	2,644,882
Bills payable to banks	x	1,289,428	1,950,423	893,716	1,950,423
Other payables and accruals	xi	2,899,111	3,179,832	2,297,535	2,118,227
Due to					
- subsidiaries (trade)		-	-	80,716	112,352
- minority shareholders of subsidiaries (non-trade)		2,736,847	2,539,592	1,270,456	1,064,079
Finance lease obligations	xii	320,703	313,327	133,555	161,336
Bank term loans	xiii	7,440,082	449,404	7,295,000	-
Provision for taxation		973,479	1,077,331	361,678	995,480
Bank overdraft	x	-	102,613	-	-
		<b>19,842,073</b>	<b>13,959,705</b>	<b>14,352,924</b>	<b>9,046,779</b>
<b>Net current assets</b>		<b>22,203,902</b>	<b>22,030,856</b>	<b>19,542,406</b>	<b>17,504,984</b>
<b>Non-current liabilities</b>					
Finance lease obligations	xii	(436,572)	(650,803)	(217,610)	(378,113)
Bank term loans	xiii	(1,045,891)	(932,834)	-	-
Deferred taxation		(1,167,439)	(971,800)	(235,000)	(258,000)
		<b>42,389,945</b>	<b>40,731,292</b>	<b>33,449,307</b>	<b>31,467,756</b>



## QIAN HU CORPORATION LIMITED

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

	<u>Group</u>		<u>Company</u>	
	<u>31 Dec 2004</u>	<u>31 Dec 2003</u>	<u>31 Dec 2004</u>	<u>31 Dec 2003</u>
Inventory turnover (days)	162	125	69	53
Trade receivables turnover (days)	75	69	63	54
Debt equity ratio	0.60	0.45	0.44	0.31

### Notes to Balance Sheets

#### (i) **Share Capital**

	<b>Number of shares</b>	<b>\$</b>
<b>Share capital</b>		
<b>- ordinary shares of \$0.10 each</b>		
<b>Issued and fully paid</b>		
Balance as at 1 Jan 2004	106,268,469	10,626,847
Issue of new shares		
- Exercise of employees' share options	228,000	22,800
- Bonus issue	21,299,287	2,129,929
- Consideration for acquisition of a subsidiary	415,482	41,548
Balance as at 31 Dec 2004	<u>128,211,238</u>	<u>12,821,124</u>

During the financial year, 228,000 share options were exercised at \$0.24 per share pursuant to the terms of the Qian Hu Pre-IPO Share Option Scheme ("Pre-IPO Scheme"). As at 31 December 2004, there were no (31/12/2003: 228,000) unexercised share options issued pursuant to the terms of the Pre-IPO Scheme.

In addition, there were options granted to subscribe for 1,338,000 (31/12/2003: 1,472,000) unissued ordinary shares of \$0.10 each in the Company at an exercise price of \$0.59 per share pursuant to the terms of the Qian Hu Post-IPO Share Option Scheme ("Post-IPO Scheme"). As at 31 December 2004, none of these share options were exercised pursuant to the terms of the Post-IPO Scheme.

In February 2004, the Company issued 21,299,287 ordinary shares of \$0.10 each pursuant to a bonus issue on the basis of 1 bonus share for every 5 existing ordinary shares of \$0.10 each held on book closure date through the capitalisation of the share premium account. The bonus shares rank pari passu in all respects with the existing shares of the Company, except that they are not entitled to any dividend declared in respect of the financial year ended 31 December 2003.

In accordance with the terms and conditions stipulated in the Sales & Purchase Agreement dated 20 January 2003 in relation to the acquisition of Kim Kang Aquaculture Sdn Bhd ("Kim Kang"), the Company issued 415,482 new ordinary shares in June 2004 to the vendors on the basis that they have partially fulfilled their undertaking to the Company to procure certain profit contributions from Kim Kang in the Company's consolidated profit for the financial year ended 31 December 2003.



## QIAN HU CORPORATION LIMITED

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

#### (ii) Brooder stocks

	<u>Group</u>		<u>Company</u>	
	<u>31 Dec 2004</u>	<u>31 Dec 2003</u>	<u>31 Dec 2004</u>	<u>31 Dec 2003</u>
	\$	\$	\$	\$
<b>Cost</b>				
Balance as at 1 Jan	7,587,213	1,459,500	1,459,500	1,459,500
Beginning balance attributable to a subsidiary acquired during the year	-	6,276,839	-	-
Translation difference	(271,138)	(149,126)	-	-
Balance as at 31 Dec	<u>7,316,075</u>	<u>7,587,213</u>	<u>1,459,500</u>	<u>1,459,500</u>
<b>Accumulated depreciation</b>				
Balance as at 1 Jan	249,511	87,570	116,760	87,570
Beginning balance attributable to a subsidiary acquired during the year	-	73,190	-	-
Depreciation charge for the year	146,322	90,467	29,190	29,190
Translation difference	(5,874)	(1,716)	-	-
Balance as at 31 Dec	<u>389,959</u>	<u>249,511</u>	<u>145,950</u>	<u>116,760</u>
<b>Net book value</b>				
Balance as at 31 Dec	<u>6,926,116</u>	<u>7,337,702</u>	<u>1,313,550</u>	<u>1,342,740</u>

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



## QIAN HU CORPORATION LIMITED

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

#### (iii) Investments in subsidiaries

Name	Effective equity interest held by the Group		Cost of investment by the Company	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
	%	%	\$	\$
Qian Hu Tat Leng Plastic Pte Ltd (Singapore)	100	100	57,050	57,050
Jiang Nan Holdings Pte. Ltd. (Singapore)	- +	100	-	2
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 (Malaysia)	65	65	7,699,891	6,695,788
Fujian Anxi Qianlong Plastics Private Co., Ltd (People's Republic of China)	- #	100	-	1,350,444
Beijing Qian Hu Aquarium & Pets Co., Ltd (People's Republic of China)	100	100	171,824	171,824
Guangzhou Wan Jiang Technology Co., Ltd (People's Republic of China)	80 ^	60	492,859	249,054
PT Qian Hu Aquarium & Pets Indonesia (Indonesia)	55 @	-	475,000	-
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
			<b>9,347,890</b>	<b>8,975,428</b>

+ Strike off in November 2004.

# Disposed of in June 2004.

^ Acquired additional equity interest in April 2004.

@ Acquired in January 2004.

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

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





## QIAN HU CORPORATION LIMITED

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

#### (iv) Investments in associates

Name	Effective equity interest held by the Group		Cost of investment by the Group	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
	%	%	\$	\$
Jin Jien Hsing Enterprise Co., Ltd (Republic of China)	50	50	28,722	28,722
PLC Pet Safari (Kuala Lumpur) Sdn Bhd (Malaysia)	49	49	66,444	66,444
			95,166	95,166
Share of post-acquisition losses			(95,166)	(28,722)
			-	66,444

#### (v) Intangible assets

	Group		Company	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
	\$	\$	\$	\$
<b>At cost</b>				
- trademarks/customer acquisition costs	638,906	630,281	621,464	612,031
- product listing fees	108,342	40,440	108,342	40,440
- goodwill on consolidation	1,870,865	815,898	-	-
	2,618,113	1,486,619	729,806	652,471
Less accumulated amortisation	(772,804)	(625,510)	(626,372)	(573,776)
	1,845,309	861,109	103,434	78,695

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".

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.

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 acquired.

#### (vi) Land use rights

The decrease in land use rights is mainly due to the disposal of land use rights held by one of our subsidiaries in China to a third party at cost.



## QIAN HU CORPORATION LIMITED

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

#### (vii) Inventories

At cost	Group		Company	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
	\$	\$	\$	\$
Fish	4,002,706	1,772,998	1,484,260	963,551
Accessories and gift items	15,842,868	12,719,142	4,057,833	4,027,462
Finished goods - plastic products	382,232	488,645	-	-
Raw materials - plastic products	106,149	192,245	-	-
	<u>20,333,955</u>	<u>15,173,030</u>	<u>5,542,093</u>	<u>4,991,013</u>
Less provision for inventory obsolescence	(424,109)	(450,577)	(330,319)	(356,787)
	<u>19,909,846</u>	<u>14,722,453</u>	<u>5,211,774</u>	<u>4,634,226</u>

The increase in inventory balance was due to additional inventory purchases made for the retail chain stores business which have commenced operations since end March 2004.

#### (viii) Trade receivables

	Group		Company	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
	\$	\$	\$	\$
Trade receivables	14,528,261	13,762,756	7,386,046	7,397,559
Less provision for doubtful trade receivables	(853,837)	(642,163)	(700,671)	(511,060)
	<u>13,674,424</u>	<u>13,120,593</u>	<u>6,685,375</u>	<u>6,886,499</u>

#### (ix) Other receivables, deposits and prepayments

	Group		Company	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
	\$	\$	\$	\$
Deposits	346,759	82,527	34,330	41,109
Prepayments	247,836	119,144	76,819	34,250
Advances to employees	2,631	1,766	-	-
Advances to suppliers	535,608	705,534	-	-
Deposit for purchase of property, plant and equipment	-	419,497	-	-
	<u>1,132,834</u>	<u>1,328,468</u>	<u>111,149</u>	<u>75,359</u>
Other receivables	659,642	442,450	169,035	200,132
Less provision for doubtful non-trade receivables	-	(6,179)	-	(6,179)
	<u>659,642</u>	<u>436,271</u>	<u>169,035</u>	<u>193,953</u>
Total	<u>1,792,476</u>	<u>1,764,739</u>	<u>280,184</u>	<u>269,312</u>



## QIAN HU CORPORATION LIMITED

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

#### (x) Bills payable and bank overdraft

	As at 31 Dec 2004	As at 31 Dec 2003
	\$	\$
Bills payable		
Secured	395,712	-
Unsecured	893,716	1,950,423
	<u>1,289,428</u>	<u>1,950,423</u>

The decrease in bills payable was due to the Group's deliberate effort to retire bills payable to bank earlier than its tenure as and when surplus funds are available in order to reduce financing costs.

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

#### (xi) Other payables and accruals

	<u>Group</u>		<u>Company</u>	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
	\$	\$	\$	\$
Accrued operating expenses	1,250,377	1,012,816	902,817	661,110
Other payables	1,648,734	2,113,758	1,394,718	1,457,117
Advance received from customers	-	53,258	-	-
	<u>2,899,111</u>	<u>3,179,832</u>	<u>2,297,535</u>	<u>2,118,227</u>

#### (xii) Finance lease obligations

<b>Group</b>			
<b>31 Dec 2004</b>	<b>Payments</b>	<b>Interest</b>	<b>Principal</b>
	\$	\$	\$
Payable:			
After 1 year but within 5 years	522,240	(85,668)	436,572
Within 1 year	375,727	(55,024)	320,703
	<u>897,967</u>	<u>(140,692)</u>	<u>757,275</u>
<b>31 Dec 2003</b>			
Payable:			
After 1 year but within 5 years	783,871	(133,068)	650,803
Within 1 year	372,773	(59,446)	313,327
	<u>1,156,644</u>	<u>(192,514)</u>	<u>964,130</u>



## QIAN HU CORPORATION LIMITED

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

#### (xii) Finance lease obligations (cont'd)

Company 31 Dec 2004	Payments \$	Interest \$	Principal \$
Payable:			
After 1 year but within 5 years	265,933	(48,323)	217,610
Within 1 year	161,909	(28,354)	133,555
	<u>427,842</u>	<u>(76,677)</u>	<u>351,165</u>
<b>31 Dec 2003</b>			
Payable:			
After 1 year but within 5 years	460,018	(81,905)	378,113
Within 1 year	194,972	(33,636)	161,336
	<u>654,990</u>	<u>(115,541)</u>	<u>539,449</u>

#### (xiii) Bank term loans

	As at 31 Dec 2004 \$	As at 31 Dec 2003 \$
Due within 1 year:		
- Short term loans (unsecured)	7,295,000	241,280
- Long-term loans, current portion (secured)	145,082	208,124
	<u>7,440,082</u>	<u>449,404</u>
Due after 1 year:		
- Long-term loans (secured)	1,045,891	932,834
	<u>8,485,973</u>	<u>1,382,238</u>

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

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

The secured long term loans comprise:

- an 8-year bank loan of RM2.65 million which bore interest at 7.9% (2003: 7.9%) per annum and is repayable in 96 monthly instalments commencing July 2003; and
- a 7-year bank loan of RM0.5 million which bore interest at 7.75% (2003: Nil) per annum and is repayable in 84 instalments commencing January 2005.

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

#### (xiv) Contingent liabilities

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



## QIAN HU CORPORATION LIMITED

### 1(c) STATEMENT OF CASH FLOWS FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2004

	<b>Group</b>		<b>Group</b>	
	<b>3 months ended 31 Dec</b>	<b>3 months ended 31 Dec</b>	<b>Financial year ended 31 Dec</b>	<b>Financial year ended 31 Dec</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	\$	\$	\$	\$
<b>Cash flows from operating activities</b>				
Profit before taxation and minority interests	674,752	2,859,125	3,421,755	9,553,651
Adjustments for:				
Bad trade receivables written off	2,133	-	15,463	-
Depreciation of				
- property, plant and equipment	506,301	384,763	1,936,165	1,563,432
- brooder stocks	33,734	37,394	146,322	90,467
Property, plant and equipment written off	-	8,732	-	13,113
Loss (gain) on disposal of				
- property, plant and equipment	2,914	(23,081)	2,384	(34,963)
- land use rights	-	-	-	(9,090)
- a subsidiary	-	-	55,221	-
Gain arising from changes in fair values less estimated point-of-sale costs attributable to physical changes of breeder stocks	(166,110)	(1,043,690)	(228,110)	(1,493,690)
Amortisation of				
- land use rights	-	478	328	1,966
- trademarks/customer acquisition costs and product listing fees	20,869	10,442	56,778	42,415
- goodwill on consolidation	60,403	40,795	91,000	40,795
Provision for				
- doubtful trade receivables	167,612	56,209	384,659	285,759
- due from associates	80,000	-	80,000	-
Provision for doubtful non-trade receivables written back	(6,179)	-	(6,179)	-
Share of associates results	-	-	66,444	-
Interest expense	158,793	38,661	379,607	221,467
Interest income	-	(5,672)	(2,916)	(7,396)
Net effect of exchange differences	(38,223)	(121,792)	(21,556)	(50,306)
<b>Operating profit before working capital changes</b>	<b>1,496,999</b>	<b>2,242,364</b>	<b>6,377,365</b>	<b>10,217,620</b>
(Increase) decrease in:				
Inventories	(183,720)	(393,507)	(5,465,481)	(1,383,128)
Trade receivables	(655,004)	558,398	(1,143,407)	(742,624)
Other receivables, deposits and prepayments	905,502	(723,953)	(93,083)	(963,952)
Due from associates (trade)	(82,631)	(101,923)	(213,493)	(255,653)
Increase (decrease) in:				
Trade payables	(1,781,890)	(1,425,605)	(198,348)	(2,298,354)
Bills payable to banks	251,578	276,188	(660,995)	(1,254,457)
Other payables and accruals	509,557	620,502	(259,652)	(164,852)
<b>Cash generated from (used in) operations</b>	<b>460,391</b>	<b>1,052,464</b>	<b>(1,657,094)</b>	<b>3,154,600</b>
Payment of income tax	(142,734)	(244,115)	(1,110,061)	(1,945,697)
Interest paid	(143,475)	(38,661)	(353,036)	(221,467)
<b>Net cash generated from (used in) operating activities</b>	<b>174,182</b>	<b>769,688</b>	<b>(3,120,191)</b>	<b>987,436</b>



## QIAN HU CORPORATION LIMITED

### 1(c) STATEMENT OF CASH FLOWS FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2004 (cont'd)

	<b>Group</b>		<b>Group</b>	
	<b>3 months ended 31 Dec</b>	<b>3 months ended 31 Dec</b>	<b>Financial year ended 31 Dec</b>	<b>Financial year ended 31 Dec</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	\$	\$	\$	\$
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(713,547)	(474,750)	(2,852,794)	(1,477,005)
Proceeds from disposal of				
- property, plant and equipment	51,858	182,926	364,341	496,479
- land use rights	-	-	89,487	127,200
Payment for trademarks/customer acquisition costs and product listing fees	(70,679)	(27,422)	(77,335)	(38,105)
Investment in an associate	-	(21,824)	-	(66,444)
Acquisition of subsidiaries (Note i)	-	-	(718,805)	(2,711,138)
Disposal of a subsidiary (Note ii)	180,000	-	332,279	-
<b>Net cash used in investing activities</b>	<b>(552,368)</b>	<b>(341,070)</b>	<b>(2,862,827)</b>	<b>(3,669,013)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issuance of new shares (net)	-	51,120	54,720	89,760
Drawdown of				
- bank term loans	1,794,066	-	7,589,066	1,430,088
- loans from minority shareholders of subsidiaries	12,666	29,672	204,389	29,672
Repayment of				
- finance lease obligations	(102,542)	(137,036)	(355,650)	(496,260)
- bank term loans	(100,228)	(29,548)	(425,565)	(47,850)
- loans from minority shareholders of subsidiaries	-	-	(547,085)	(1,062,928)
Payment of dividends to shareholders	-	-	(511,183)	(964,620)
Interest received	-	5,672	2,916	7,396
<b>Net cash generated from (used in) financing activities</b>	<b>1,603,962</b>	<b>(80,120)</b>	<b>6,011,608</b>	<b>(1,014,742)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,225,776</b>	<b>348,498</b>	<b>28,590</b>	<b>(3,696,319)</b>
<b>Cash and cash equivalents at beginning of period/year</b>	<b>2,927,182</b>	<b>3,775,870</b>	<b>4,124,368</b>	<b>7,820,687</b>
<b>Cash and cash equivalents at end of period/year (Note iii)</b>	<b>4,152,958</b>	<b>4,124,368</b>	<b>4,152,958</b>	<b>4,124,368</b>



## QIAN HU CORPORATION LIMITED

### Notes to Statement of Cash Flows

#### (i) Acquisition of subsidiaries

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

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

#### (ii) Disposal of a subsidiary

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

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



## QIAN HU CORPORATION LIMITED

### Notes to Statement of Cash Flows (cont'd)

(iii) Cash and cash equivalents comprise:

	<b>Group</b>	
	<b>31 Dec 2004</b>	<b>31 Dec 2003</b>
	\$	\$
Fixed deposits	23,046	101,594
Cash and bank balances	4,129,912	4,125,387
Bank overdraft	-	(102,613)
	<u>4,152,958</u>	<u>4,124,368</u>

(iv) The Group's **net cash generated from operating activities** deteriorated for the year ended 31 December 2004 as well as on a quarter-to-quarter basis mainly due to:

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

**Net cash used in investing activities** mainly relate to:

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

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

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





## QIAN HU CORPORATION LIMITED

### 1(d) STATEMENT OF CHANGES IN EQUITY

<b>Group</b>	<b>Share capital</b> \$	<b>Share premium</b> \$	<b>Revenue reserve</b> \$	<b>Translation reserve</b> \$	<b>Total</b> \$
<b>Balance at 1 Jan 2003</b>	10,297,070	4,714,984	12,777,602	87,758	27,877,414
Currency translation differences	-	-	-	(274,061)	(274,061)
Net profit for the year	-	-	7,015,773	-	7,015,773
Payment of final dividend	-	-	(964,620)	-	(964,620)
Issue of new shares	329,777	2,566,801	-	-	2,896,578
<b>Balance at 31 Dec 2003</b>	<u>10,626,847</u>	<u>7,281,785</u>	<u>18,828,755</u>	<u>(186,303)</u>	<u>36,551,084</u>
Currency translation differences	-	-	-	(209,580)	(209,580)
Net profit for the period	-	-	1,193,586	-	1,193,586
Bonus issue of shares via capitalisation of share premium account	2,129,929	(2,129,929)	-	-	-
Issue of new shares	22,800	31,920	-	-	54,720
<b>Balance at 31 Mar 2004</b>	<u>12,779,576</u>	<u>5,183,776</u>	<u>20,022,341</u>	<u>(395,883)</u>	<u>37,589,810</u>
Currency translation differences	-	-	-	185,255	185,255
Net profit for the period	-	-	969,526	-	969,526
Payment of final dividend	-	-	(511,183)	-	(511,183)
Issue of new shares	41,548	357,316	-	-	398,864
<b>Balance at 30 Jun 2004</b>	<u>12,821,124</u>	<u>5,541,092</u>	<u>20,480,684</u>	<u>(210,628)</u>	<u>38,632,272</u>
Currency translation differences	-	-	-	(180,846)	(180,846)
Net profit for the period	-	-	(682,274)	-	(682,274)
<b>Balance at 30 Sep 2004</b>	<u>12,821,124</u>	<u>5,541,092</u>	<u>19,798,410</u>	<u>(391,474)</u>	<u>37,769,152</u>
Currency translation differences	-	-	-	(286,355)	(286,355)
Net profit for the period	-	-	146,444	-	146,444
<b>Balance at 31 Dec 2004</b>	<u>12,821,124</u>	<u>5,541,092</u>	<u>19,944,854</u>	<u>(677,829)</u>	<u>37,629,241</u>



## QIAN HU CORPORATION LIMITED

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

<b>Company</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Revenue reserve</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Balance at 1 Jan 2003</b>	10,297,070	4,714,984	9,810,202	24,822,256
Net profit for the period	-	-	4,713,542	4,713,542
Payment of final dividend	-	-	(964,620)	(964,620)
Issue of new shares	329,777	2,566,801	-	2,896,578
<b>Balance at 31 Dec 2003</b>	<u>10,626,847</u>	<u>7,281,785</u>	<u>13,559,124</u>	<u>31,467,756</u>
Net profit for the period	-	-	945,232	945,232
Bonus issue of shares via capitalisation of share premium account	2,129,929	(2,129,929)	-	-
Issue of new shares	22,800	31,920	-	54,720
<b>Balance at 31 Mar 2004</b>	<u>12,779,576</u>	<u>5,183,776</u>	<u>14,504,356</u>	<u>32,467,708</u>
Net profit for the period	-	-	335,183	335,183
Payment of final dividend	-	-	(511,183)	(511,183)
Issue of new shares	41,548	357,316	-	398,864
<b>Balance at 30 Jun 2004</b>	<u>12,821,124</u>	<u>5,541,092</u>	<u>14,328,356</u>	<u>32,690,572</u>
Net profit for the period	-	-	236,755	236,755
<b>Balance at 30 Sep 2004</b>	<u>12,821,124</u>	<u>5,541,092</u>	<u>14,565,111</u>	<u>32,927,327</u>
Net profit for the period	-	-	521,980	521,980
<b>Balance at 31 Dec 2004</b>	<u>12,821,124</u>	<u>5,541,092</u>	<u>15,087,091</u>	<u>33,449,307</u>

### 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

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 most recent audited annual financial statements as at 31 December 2003.

### 5 CHANGES IN ACCOUNTING POLICIES

Not applicable



## QIAN HU CORPORATION LIMITED

### 6 EARNINGS PER ORDINARY SHARE (EPS)

	<u>Group</u>		<u>Group</u>	
	<u>3 months ended 31 Dec</u>	<u>2003</u>	<u>Financial year ended 31 Dec</u>	<u>2003</u>
	<u>2004</u>		<u>2004</u>	
EPS (based on consolidated net profit attributable to shareholders)				
- on weighted average number of ordinary shares				
on issue	0.11 cents	1.35 cents	1.27 cents	5.58 cents
- on a fully diluted basis	0.11 cents	1.34 cents	1.27 cents	5.55 cents

Earnings per ordinary share on existing issued share capital is computed based on the weighted average number of shares in issue during the period of 128,016,740 (31/12/2003: 125,748,595).

Earnings per ordinary share on a fully diluted basis is computed based on the weighted average number of shares during the period adjusted to assume conversion of all potential dilutive ordinary shares of 128,027,827 (31/12/2003: 126,371,992).

### 7 NET ASSET VALUE PER SHARE

	<u>Group</u>		<u>Company</u>	
	<u>31 Dec 2004</u>	<u>31 Dec 2003</u>	<u>31 Dec 2004</u>	<u>31 Dec 2003</u>
Net asset value per share based on existing issued share capital as at the respective period	33.06 cents	38.33 cents	26.09 cents	29.61 cents

### 8 REVIEW OF GROUP PERFORMANCE

#### (a) **Turnover**

#### Financial year 2004 vs financial year 2003

	<u>Group</u>		<u>Increase</u>	
	<u>Financial year ended 31 Dec</u>	<u>2003</u>	<u>(Decrease)</u>	
	<u>2004</u>	<u>2003</u>	<u>\$'000</u>	<u>%</u>
	<u>\$'000</u>	<u>\$'000</u>		
Fish	31,180	27,466	3,714	13.5
Accessories	27,307	33,646	(6,339)	(18.8)
Plastics	7,005	6,568	437	6.7
	<u>65,492</u>	<u>67,680</u>	<u>(2,188)</u>	

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

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



## QIAN HU CORPORATION LIMITED

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

#### (a) Turnover (cont'd)

##### 4Q 2004 vs 4Q 2003

	<u>Group</u>		<u>Increase</u>	
	<u>4Q</u>	<u>4Q</u>	<u>(Decrease)</u>	
	<u>2004</u>	<u>2003</u>	<u>\$'000</u>	<u>%</u>
	<u>\$'000</u>	<u>\$'000</u>		
Fish	7,360	6,790	570	8.4
Accessories	6,379	8,230	(1,851)	(22.5)
Plastics	1,785	1,656	129	7.8
	<u>15,524</u>	<u>16,676</u>	<u>(1,152)</u>	

Although the turnover for ornamental fish and plastics activities increased by \$0.6 million or 8.4% and \$0.1 million or 7.8% respectively in the 4th quarter of 2004, the reduction in turnover of \$1.85 million or 22.5% registered by the accessories business has led to the decrease in total turnover in the current quarter as compared to its corresponding period in 2003.

##### Fish

PT Qian Hu Aquarium & Pets Indonesia, which was acquired in 2004, is the main contributor to the increase in our ornamental fish turnover in the current quarter. The increase, however, is partially offset by the reduction in the domestic demand of ornamental fish as the local market is in the process of consolidation since the second half of 2003 as well as lower sales of ornamental fish recorded by our Malaysia fish division during this quarter.

##### Accessories

The lower demand from the domestic and Malaysia market has also led to a reduction in our accessories sales locally and in our Malaysia subsidiary, which resulted in a dip in accessories turnover in 2004 as compared to 2003.

##### Plastics

Operating conditions for our plastics activities remained competitive in 2004. While we continue to focus on generating sales through selling more high-yielded items, we are also looking at other new channels to expand our current market share domestically and overseas.



## QIAN HU CORPORATION LIMITED

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

#### (a) Turnover (cont'd)

##### 4Q 2004 vs 3Q 2004

	<u>Group</u>		<u>Increase (Decrease)</u>	
	<u>4Q 2004</u>	<u>3Q 2004</u>		
	\$'000	\$'000	\$'000	%
Fish	7,360	7,140	220	3.1
Accessories	6,379	6,704	(325)	(4.8)
Plastics	1,785	1,865	(80)	(4.3)
	<u>15,524</u>	<u>15,709</u>	<u>(185)</u>	

Despite the increase in ornamental fish sales in the current quarter by \$0.2 million or 3.1%, the aggregate decrease in accessories and plastics turnover by \$0.4 million has led to a marginal dip in our overall turnover as compared to the previous quarter in 2004.

#### Fish

Our ornamental fish export sales from Singapore, Thailand and China has recorded higher turnover in the current quarter after a low ornamental fish export season from July to September (previous quarter) as a result of the summer holidays in Europe. The domestic ornamental fish sales have stabilized in the current quarter after a period of market consolidation.

#### Accessories

As the domestic market demand stabilizes, the reduction in accessories turnover in the current quarter as compared to the 3rd quarter of 2004 was mainly due to lower sales for accessories products in the Malaysia market due to market competitiveness.

#### Plastics

Our plastics turnover recorded in the current quarter was comparable to that of the previous quarter.

#### (b) Profitability

##### Financial year 2004 vs financial year 2003

	<u>Group</u>		<u>Increase (Decrease)</u>	
	<u>Financial year ended 31 Dec</u>			
	<u>2004</u>	<u>2003</u>	\$'000	%
	\$'000	\$'000		
Fish	4,303	5,333	(1,030)	(19.3)
Accessories	287	5,241	(4,954)	(94.5)
Plastics	309	256	53	20.7
Unallocated corporate expenses	(1,412)	(1,276)	(136)	(10.7)
	<u>3,487</u>	<u>9,554</u>	<u>(6,067)</u>	

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



## QIAN HU CORPORATION LIMITED

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

#### (b) Profitability (cont'd)

##### 4Q 2004 vs 4Q 2003

	<u>Group</u>		<u>Increase</u>	
	<u>4Q</u>	<u>4Q</u>	<u>(Decrease)</u>	
	<u>2004</u>	<u>2003</u>	<u>\$'000</u>	<u>%</u>
	<u>\$'000</u>	<u>\$'000</u>		
Fish	719	1,905	(1,186)	(62.3)
Accessories	133	1,218	(1,085)	(89.1)
Plastics	75	31	44	141.9
Unallocated corporate expenses	(253)	(295)	42	14.2
	<u>674</u>	<u>2,859</u>	<u>(2,185)</u>	

#### Fish

Our operating profit from the ornamental fish activities decreased by \$1.2 million or 62.3% from \$1.9 million to \$0.7 million in the 4th quarter of 2004 as compared to its corresponding period in 2003 mainly due to a valuation placed on our breeder stock (off-springs of existing brooder stocks) of approximately \$1 million in the 4th quarter of 2003. The gain arising from changes in fair value attributable to changes in breeder stock amounted to \$166K in the current quarter.

After taking the above into consideration, the ornamental fish profitability dipped marginally due to the difference in sales mix and the lower margins recorded in the current quarter despite the higher sales recorded.

#### Accessories

Our operating profit from our accessories business decreased by \$1.1 million or 89.1% in the 4th quarter of 2004 partly as a result of a significantly lower turnover recorded, coupled with a slight reduction in gross profit margin yielded on a quarter-to-quarter basis from both our local and Malaysia operations due to keen competition. The profitability of our accessories business in the current quarter was also affected by the initial operating losses incurred by the retail chain stores, which commenced operations since March 2004.

#### Plastics

Despite registering a lower turnover, our operating profit from the plastics business improved in the current quarter as compared to the corresponding period in 2003 as we made conscientious effort to contain our operating costs and to focus on selling products with better margin yielded.

The amount of unallocated corporate expenses, which relate to staff costs and administrative expenses incurred in relation to the overseeing of the Group's operations both locally and overseas, remained relatively stable for both periods.



## QIAN HU CORPORATION LIMITED

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

#### (b) Profitability (cont'd)

##### 4Q 2004 vs 3Q 2004

	<u>Group</u>		<u>Increase</u>	
	<u>4Q</u>	<u>3Q</u>	<u>(Decrease)</u>	
	<u>2004</u>	<u>2004</u>	<u>\$'000</u>	<u>%</u>
	<u>\$'000</u>	<u>\$'000</u>		
Fish	719	585	134	22.9
Accessories	133	(916)	1,049	114.5
Plastics	75	84	(9)	(10.7)
Unallocated corporate expenses	(253)	(491)	238	48.5
	<u>674</u>	<u>(738)</u>	<u>1,412</u>	

#### Fish

The increase in operating profit from our ornamental fish business was mainly due to the valuation placed on our breeder stock (off-springs of existing brooder stocks) of \$166K in the current quarter. The additional profit was partially offset by the lower profit recorded, despite the higher sales recorded, due to the difference in sales mix as compared to the previous quarter.

#### Accessories

The losses registered by our accessories business of \$0.9 million in the previous quarter was mainly due to the write off of pre-operational costs and the initial operating losses incurred by our newly set-up retail chain stores throughout the region during that quarter. In the current quarter, these set-up costs and operating losses were reduced substantially as there was only one new store opened in November 2004 and that the operating retail chain stores has shown improvement in their profitability during the current quarter.

#### Plastics

The operating profit from our plastic activities remained relatively stable for both periods.

The higher unallocated corporate expenses incurred in the previous quarter relate to certain non-recurring expenses in relation to the Group's branding project and the transformation of the Group's activities in that quarter.

### 9 VARIANCE FROM PROSPECT STATEMENT

Not applicable

### 10 PROSPECTS

Our Group's future growth depends on :

- increase in our export of ornamental fish;
- continuous growth of our breeding and sales of Dragon Fish;
- ability to expand our distribution capabilities from owning the business to owning the customers; and
- enhance efficiency and our ability in manufacturing accessories products.



## **QIAN HU CORPORATION LIMITED**

### **10 PROSPECTS (cont'd)**

#### **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 5 countries, namely Singapore, Malaysia, Indonesia, Thailand, 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 5 countries mentioned above, we believe that there will be a positive contribution to our ornamental fish turnover moving forward.

#### **Continuous growth of our breeding and sales of Dragon Fish**

China is a huge market for dragon fish, so is Taiwan and Japan. Based on the improved sales recorded in FY 2004, 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 will also enable us to increase the production of Dragon Fish in our farms, and hence, enhance our Group's ability to meet the future growth in the demand of Dragon Fish.

#### **Our ability to expand our distribution capabilities from owning the business to owning the customers**

We are in a process of professionalizing a highly fragmented ornamental fish and aquarium & pets accessories retail market by setting up our retail chain stores throughout the region under the name, "Qian Hu – The Pet Family", which provide better services, a wider product range in a visually-stimulating shopping environment, and thereby offering hobbyists and customers a different and more enjoyable shopping experience. This is similar to the evolution of the neighbourhood provision shops to supermarkets. Although this process needs continuous experimentation and a slightly longer gestation period to conclude results, it is extremely essential for our Group to undertake such initiative so as to enhance our market position.

#### **Enhance efficiency and our ability in manufacturing accessories products**

In order to capture a larger extend within the value chain as well as to build up our own brand of accessories products, our Group has increased the production capacity of our Guangzhou factory in 2004, which produces aquarium accessories products for our suppliers, our subsidiaries and our customers. With the increasing demand supported by our subsidiaries' distribution network in 5 countries and with more of our suppliers and new customers from other parts of the world seeking OEM arrangements, we are able to enhance our factory's production efficiency and hence, improve the turnover and profit contributions from our Guangzhou factory.

In view of the expansion process, the continuous experimentation and gestation period required for our retail chain stores to be profitable, we expect our Group to remain profitable in Year 2005 despite possible fluctuations in our operating profit from quarter to quarter.

### **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.





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

**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 6 countries with assets and activities spreading across the Asia Pacific. As at 31 December 2004, 63% of our Group's assets are located overseas as compared to 57% in FY 2003. Turnover from our overseas' customers has also increased from 56% in FY 2003 to 66% in FY 2004.

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

**Product risk**

For the year ended 31 December 2004, our Dragon Fish sales contributed approximately 23% of our ornamental fish sales and approximately 10% of our Group total turnover. We sell over 500 species and varieties of ornamental fishes to more than 60 countries and are not reliant on the sale of any particular type or specimen 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 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 our Group arises from sales, purchases and borrowings that are denominated in foreign currencies. The currencies giving rise to this risk are primarily US dollar, Euro and Japanese Yen.

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

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

**Credit risk**

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

None of 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 and slow moving stocks, we have adopted a prudent accounting policy of a general 10% provision for all trade debts overdue for more than 120 days and a full provision for all non-moving stocks of a duration of more than 6 months. Accordingly, our Group does not expect to incur material credit losses on its risk management or other financial instruments.



## QIAN HU CORPORATION LIMITED

### 11 **RISK FACTORS (cont'd)**

#### **Interest rate risk**

Our Group's cash balances are placed with reputable banks and financial institutions. Additional financing are 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. To manage liquidity risk, our Group monitors its net operating cashflow and maintains a level of cash and cash equivalents deemed adequate by management for working capital purposes so as to mitigate the effects of fluctuations in cash flows.

#### **Derivative Financial Instrument Risk**

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

### 12 **DIVIDEND**

#### (a) **Present period**

<u>Name of dividend</u>	<u>NIL</u>
Dividend type	-
Dividend rate	-
Par value of shares	-
Tax rate	-

#### (b) **Previous corresponding period**

<u>Name of dividend</u>	<u>First &amp; final</u>
Dividend type	Cash
Dividend rate	0.6 cents per ordinary share (less tax)
Par value of shares	\$0.10
Tax rate	20.0%

#### (c) **Total annual dividend**

	<u>Latest year</u> (\$'000)	<u>Previous year</u> (\$'000)
Ordinary	-	511
Preference	-	-
Total:	-	511

#### (d) **Date payable**

Not applicable

#### (e) **Books closure date**

Not applicable



## QIAN HU CORPORATION LIMITED

### 13 SEGMENT INFORMATION

#### (a) **Business segments**

<b>Group</b>	<b>Financial year ended 31 Dec 2004</b>				
	<b>Fish</b> \$'000	<b>Accessories</b> \$'000	<b>Plastics</b> \$'000	<b>Eliminations</b> \$'000	<b>Total</b> \$'000
<b>Turnover</b>					
External sales	31,180	27,307	7,005	-	65,492
Inter-segment sales	6,449	6,082	145	(12,676)	-
<b>Total sales</b>	<b>37,629</b>	<b>33,389</b>	<b>7,150</b>	<b>(12,676)</b>	<b>65,492</b>
<b>Results</b>					
Segment results	4,422	406	313	(10)	5,131
Unallocated expenses					(1,267)
					3,864
Financial expenses - net					(377)
Share of associates results					(66)
Taxation					(1,212)
Minority interests					(582)
<b>Net profit for the year</b>					<b>1,627</b>
<b>Net profit margin</b>	<b>14.2%</b>	<b>1.5%</b>	<b>4.5%</b>		<b>2.5%</b>
<b>Assets and liabilities</b>					
Assets	32,953	26,317	3,605	-	62,875
Unallocated assets					2,007
<b>Total assets</b>					<b>64,882</b>
Liabilities	6,151	3,099	1,093	-	10,343
Unallocated liabilities					12,149
<b>Total liabilities</b>					<b>22,492</b>
<b>Other Information</b>					
Capital expenditure	1,251	1,594	172	-	3,017
Depreciation and amortisation	1,153	759	319	-	2,231
Other non-cash expenses (income)	38	113	72	-	223



## QIAN HU CORPORATION LIMITED

### 13 SEGMENT INFORMATION (cont'd)

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

<b>Group</b>	<b>Financial year ended 31 Dec 2003</b>				
	<b>Fish</b> \$'000	<b>Accessories</b> \$'000	<b>Plastics</b> \$'000	<b>Eliminations</b> \$'000	<b>Total</b> \$'000
<b>Turnover</b>					
External sales	27,466	33,646	6,568	-	67,680
Inter-segment sales	2,540	11,168	973	(14,681)	-
<b>Total sales</b>	<b>30,006</b>	<b>44,814</b>	<b>7,541</b>	<b>(14,681)</b>	<b>67,680</b>
<b>Results</b>					
Segment results	5,402	5,377	265	(25)	11,019
Unallocated expenses					(1,251)
					9,768
Financial expenses - net					(214)
Taxation					(1,784)
Minority interests					(754)
<b>Net profit for the year</b>					<b>7,016</b>
<b>Net profit margin</b>	<b>19.7%</b>	<b>16.0%</b>	<b>4.0%</b>		<b>10.4%</b>
<b>Assets and liabilities</b>					
Assets	27,333	24,155	4,664	-	56,152
Investments in associates					66
Unallocated assets					1,028
<b>Total assets</b>					<b>57,246</b>
Liabilities	4,908	5,582	1,159	-	11,649
Unallocated liabilities					4,866
<b>Total liabilities</b>					<b>16,515</b>
<b>Other Information</b>					
Capital expenditure	866	786	174	-	1,826
Depreciation and amortisation	797	617	325	-	1,739
Other non-cash expenses (income)	(1,223)	(17)	1	-	(1,239)



## QIAN HU CORPORATION LIMITED

### 13 SEGMENT INFORMATION (cont'd)

#### (b) Geographical segments

Group	Turnover		Assets		Capital expenditure	
	Financial year ended 31 Dec		Financial year ended 31 Dec		Financial year ended 31 Dec	
	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Singapore	22,436	29,741	24,141	24,548	291	605
Other asian countries	29,213	28,239	40,741	32,698	2,726	1,221
Europe	10,881	7,856	-	-	-	-
Others	2,962	1,844	-	-	-	-
<b>Total</b>	<b>65,492</b>	<b>67,680</b>	<b>64,882</b>	<b>57,246</b>	<b>3,017</b>	<b>1,826</b>

### 14 BREAKDOWN OF SALES

Turnover (Group)	Fish \$'000	Accessories \$'000	Plastics \$'000	Total \$'000
<b>4Q 2004</b>				
Singapore (including domestic sales & sales to Singapore)	1,810	846	1,778	4,434
Overseas (including export to & sales in overseas)	5,550	5,533	7	11,090
<b>Total sales</b>	<b>7,360</b>	<b>6,379</b>	<b>1,785</b>	<b>15,524</b>
<b>4Q 2003</b>				
Singapore	2,292	2,787	1,656	6,735
Overseas	4,498	5,443	-	9,941
<b>Total sales</b>	<b>6,790</b>	<b>8,230</b>	<b>1,656</b>	<b>16,676</b>
<b>Financial year ended 31 Dec 2004</b>				
Singapore (including domestic sales & sales to Singapore)	7,511	8,015	6,910	22,436
Overseas (including export to & sales in overseas)	23,669	19,292	95	43,056
<b>Total sales</b>	<b>31,180</b>	<b>27,307</b>	<b>7,005</b>	<b>65,492</b>
<b>Financial year ended 31 Dec 2003</b>				
Singapore	10,996	12,191	6,554	29,741
Overseas	16,470	21,455	14	37,939
<b>Total sales</b>	<b>27,466</b>	<b>33,646</b>	<b>6,568</b>	<b>67,680</b>



## QIAN HU CORPORATION LIMITED

### 16 QUARTERLY ANALYSIS

	<b>2004</b>	<b>2003</b>	<b>Change</b>
	\$'000	\$'000	%
<b>Turnover</b>			
1st Quarter	16,249	15,942	1.9
2nd Quarter	18,010	17,263	4.3
3rd Quarter	15,709	17,799	(11.7)
4th Quarter	15,524	16,676	(6.9)
	<u>65,492</u>	<u>67,680</u>	<u>(3.2)</u>
<b>Profit before tax</b>			
1st Quarter	1,509	1,700	(11.2)
2nd Quarter	1,976	2,489	(20.6)
3rd Quarter	(738)	2,506	(129.4)
4th Quarter	674	2,859	(76.4)
	<u>3,421</u>	<u>9,554</u>	<u>(64.2)</u>
<b>Net profit after tax</b>			
1st Quarter	1,194	1,309	(8.8)
2nd Quarter	969	1,942	(50.1)
3rd Quarter	(682)	2,070	(132.9)
4th Quarter	146	1,695	(91.4)
	<u>1,627</u>	<u>7,016</u>	<u>(76.8)</u>

- **Turnover**

The marginal growth in turnover during the first half of 2004, followed by the dip in turnover in the second half of the year was due to lower demand from the domestic (Singapore) and Malaysia market for both ornamental fish and accessories products as these markets were in the process of consolidation since the second half of 2003.

- **Profitability**

The significant reduction in overall profitability during the year was due to:

- lower turnover recorded from our accessories business, coupled with a reduction in gross profit margin yielded due to keen competition
- losses incurred by our Guangzhou factory due to production inefficiency and down-time as a result of its relocation to a new site and the continuous expansion in the first and second quarter of 2004
- write off of pre-operational costs and initial operating losses incurred by our retail chain stores set up throughout the region

### **BY ORDER OF THE BOARD**

Kenny Yap Kim Lee  
Executive Chairman and Managing Director  
12/01/2005