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

FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

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

FULL YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

1(a) STATEMENT OF PROFIT OR LOSS FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	Group 3 months ended 31 Dec			Group Financial year ended 31 Dec		
		2017	**2016**	**Change**	**2017**	**2016**	**Change**
		$'000	$'000	%	$'000	$'000	%
Revenue		22,042	22,112	(0.3)	87,824	80,470	9.1
Cost of sales		(15,132)	(16,058)	(5.8)	(61,567)	(56,731)	8.5
Gross profit		6,910	6,054	14.1	26,257	23,739	10.6
Other (expenses) income	i	(12)	135	(108.9)	119	301	(60.5)
		6,898	6,189	11.5	26,376	24,040	9.7
Selling & distribution expenses	ii	(546)	(405)	34.8	(1,533)	(1,435)	6.8
General & administrative expenses	ii	(6,058)	(5,816)	4.2	(23,692)	(22,255)	6.5
Results from operating activities	iii	294	(32)	NM	1,151	350	228.9
Finance income	iv	3	3	-	7	9	(22.2)
Finance costs	iv	(105)	(79)	32.9	(387)	(339)	14.2
		192	(108)	277.8	771	20	NM
Share of losses of associate		-	(20)	(100.0)	(10)	(30)	(66.7)
Profit (Loss) before tax		192	(128)	250.0	761	(10)	NM
Tax (expense) credit	v	(72)	220	132.7	(212)	332	163.9
Profit for the period/year		120	92	30.4	549	322	70.5
Profit (Loss) attributable to:							
Owners of the Company		**126**	**36**	**250.0**	**329**	**68**	**383.8**
Non-controlling interests		(6)	56	(110.7)	220	254	(13.4)
Profit for the period/year		120	92	30.4	549	322	70.5
Gross profit margin		31.3%	27.4%		29.9%	29.5%	
Net profit margin		0.5%	0.4%		0.6%	0.4%	
Effective tax rate		-	-		31.0%	NM	
Return on equity		-	-		0.7%	0.1%	

NM: Not Meaningful

QIAN HU CORPORATION LIMITED
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STATEMENT OF COMPREHENSIVE INCOME
FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Group			Group		
	3 months ended 31 Dec			Financial year ended 31 Dec		
	2017	2016	Change	2017	2016	Change
	$'000	$'000	%	$'000	$'000	%
Profit for the period/year	120	92	30.4	549	322	70.5
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Foreign currency translation differences - foreign operations, net of tax	69	100	(31.0)	(11)	91	(112.1)
Other comprehensive income for the period/year, net of tax	69	100	(31.0)	(11)	91	(112.1)
Total comprehensive income for the period/year	189	192	(1.6)	538	413	30.3
Total comprehensive income attributable to:						
Owners of the Company	**182**	**94**	**93.6**	**373**	**100**	**273.0**
Non-controlling interests	7	98	(92.9)	165	313	(47.3)
Total comprehensive income for the period/year	189	192	(1.6)	538	413	30.3

Notes to Statement of Profit or Loss

(i) Other (expenses) income

Other (expenses) income comprises:

	Group		Group	
	3 months ended 31 Dec		Financial year ended 31 Dec	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Gain (Loss) on disposal of				
- property, plant and equipment	14	18	63	79
- brooder stocks	-	-	-	1
- an associate	(46)	-	(46)	-
Sundry income	20	117	102	221
	(12)	135	119	301

The loss on disposal of an associate of approximately $46K arose from the disposal of the Group's entire equity interest in its associate, Arcadia Products PLC, in the 4th quarter of 2017 for a cash consideration of approximately $222K.

The higher sundry income in the 4th quarter of 2016 and for the year ended 31 December 2016 was mainly due to rental income received on the investment property amounting to approximately $0.1 million. There was no such rental income received in FY 2017.

Notes to Statement of Profit or Loss (cont'd)

(ii) **Selling & distribution expenses** – increased by $98K or 6.8% (YTD)
increased by $141K or 34.8% (4Q 2017)

General & administrative expenses – increased by $1.4 million or 6.5% (YTD)
increased by $242K or 4.2% (4Q 2017)

The net increase in total operating expenses by approximately $0.4 million or 6.2% and $1.5 million or 6.5% in the current quarter and for the year ended 31 December 2017 respectively was mainly due to:-

- higher revenue registered;
- expenses incurred by our newly incorporated subsidiary in the Hainan Province;
- higher allowance made for trade receivables as the recoverability of some receivables may be doubtful although not definitely irrecoverable;
- higher exchange loss reported;
- higher personnel expenses as a result of increase in headcount and annual salary revision; and
- broad-spectrum increase in operating costs (e.g utilities costs) as a result of elevated inflationary pressure.

(iii) **Profit from operations**

This is determined after charging (crediting) the following:

	Group		Group	
	3 months ended 31 Dec		Financial year ended 31 Dec	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Auditors' remuneration				
- auditors of the Company	33	27	120	112
- other auditors	7	11	18	19
Non-audit fees				
- other auditors	7	7	31	21
Directors' fees				
- directors of the Company	31	30	106	105
Directors' remuneration				
- directors of the Company	284	284	1,135	1,135
- directors of subsidiaries	93	89	368	352
Amortisation of intangible assets	22	4	38	4
Bad trade receivables (recovered) written off	(7)	9	7	44
Depreciation of				
- property, plant and equipment	410	421	1,659	1,667
- brooder stocks	52	46	198	187
Allowance for (Write back of allowance for)				
- doubtful trade receivables	399	39	616	178
- inventory obsolescence	(56)	-	(56)	(17)
Operating lease expenses	308	317	1,174	1,116
Personnel expenses *	3,720	3,774	14,500	13,822
Exchange (gain) loss, net	(5)	(167)	245	15
Change in fair value less estimated point-of-sale costs of breeder stocks	6	-	6	-

* Include directors' remuneration.

Notes to Statement of Profit or Loss (cont'd)

(iv) Finance income Finance costs

	Group		Group	
	3 months ended 31 Dec		Financial year ended 31 Dec	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Interest expense				
- bank loans and overdrafts	92	70	337	289
- bills payable to banks	5	8	21	29
- finance lease liabilities	8	1	29	21
	105	79	387	339
Interest income				
- bank deposits	(3)	(3)	(7)	(9)
Net finance costs	102	76	380	330

The increase in net finance costs by approximately 34.2% and 15.2% in the current quarter and for the year ended 31 December 2017 respectively as compared to the corresponding periods in 2016 was mainly due to higher interest rates charged by financial institutions as well as an increase in the amount of bank borrowings outstanding during the current reporting periods.

(v) Tax expense (credit)

	Group		Group	
	3 months ended 31 Dec		Financial year ended 31 Dec	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Current tax expense				
- current year	83	(70)	229	103
- (over) under provision in respect of prior years	(18)	29	(24)	(56)
Deferred tax				
- origination and reversal of temporary differences	7	1	7	1
- over provision in respect of prior years	-	(180)	-	(380)
	72	(220)	212	(332)

The effective tax rate registered for the 4th quarter of 2017 and for the year ended 31 December 2017 were higher than the amount obtained by applying the statutory tax rate of 17% on profit before tax mainly due to losses incurred by some entities which cannot be offset against profits earned by other companies within the Group and the varying statutory tax rates of the different countries in which the Group operates. In addition, there were higher profit contributions from entities with a higher tax rate.

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1(b)(i) **STATEMENTS OF FINANCIAL POSITION**

	Note	Group		Company	
		31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
		$	$	$	$
Assets					
Property, plant and equipment	i	9,598,646	8,749,943	4,948,185	5,348,168
Investment property	ii	1,585,941	1,585,941	-	-
Intangible assets	iii	3,350,713	889,380	3,350,713	889,380
Brooder stocks	iv	9,382,018	8,179,749	9,382,018	8,179,749
Investments in subsidiaries	v	-	-	3,006,721	2,380,785
Investment in associate	vi	-	277,624	-	412,600
Trade and other receivables	vii	9,047,169	9,031,147	9,047,169	9,031,147
Non-current assets		32,964,487	28,713,784	29,734,806	26,241,829
Breeder stocks	viii	96,750	66,780	96,750	66,780
Inventories	ix	15,584,396	15,452,835	6,672,766	6,667,576
Trade receivables	x	16,991,887	17,559,155	9,528,345	10,295,379
Other receivables, deposits and prepayments	xi	4,872,112	6,298,432	2,099,746	3,902,739
Due from					
- subsidiaries (trade)		-	-	6,849,346	6,435,585
- subsidiaries (non-trade)		-	-	2,833,742	2,842,969
- associate (trade)	xii	-	848,973	-	848,973
Cash and bank balances		11,123,954	8,723,403	6,218,194	5,236,230
Current assets		48,669,099	48,949,578	34,298,889	36,296,231
Total assets		81,633,586	77,663,362	64,033,695	62,538,060
Equity					
Share capital	xiii	30,772,788	30,772,788	30,772,788	30,772,788
Reserves		18,145,680	17,772,591	9,677,384	10,517,769
Equity attributable to owners of the Company		48,918,468	48,545,379	40,450,172	41,290,557
Non-controlling interests		2,716,178	1,948,389	-	-
Total equity		51,634,646	50,493,768	40,450,172	41,290,557
Liabilities					
Loans and borrowings	xiv	245,784	364,249	144,396	241,311
Deferred tax liabilities		57,390	49,703	-	-
Non-current liabilities		303,174	413,952	144,396	241,311
Trade payables		7,347,152	7,442,284	2,347,892	2,679,552
Other payables and accruals	xv	5,989,526	3,800,646	4,436,656	2,663,923
Due to					
- subsidiaries (trade)		-	-	142,329	144,334
- subsidiaries (non-trade)		-	-	687,600	539,832
Loans and borrowings	xiv	16,039,130	15,205,094	15,617,193	14,771,094
Current tax payable		319,958	307,618	207,457	207,457
Current liabilities		29,695,766	26,755,642	23,439,127	21,006,192
Total liabilities		29,998,940	27,169,594	23,583,523	21,247,503
Total equity and liabilities		81,633,586	77,663,362	64,033,695	62,538,060

1(b)(i) **STATEMENTS OF FINANCIAL POSITION (cont'd)**

	Group		Company	
	31 Dec 2017	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Inventory turnover (days)	92	101	76	80
Trade receivables turnover (days)	103	115	137	150
Trade receivables turnover (days) *(without GZQH balances)*	68	75	72	82
Debt equity ratio	0.58	0.54	0.58	0.51

Note - With the disposal of Guangzhou Qian Hu Aquarium and Pets Accessories Manufacturing Co., Ltd ("GZQH"), a former subsidiary, in December 2011, the Group's and the Company's trade balances with GZQH have been reclassified as trade receivables. Accordingly, it has resulted in a higher trade receivables turnover days.

Notes to Statements of Financial Position

(i) Property, plant and equipment

The increase in property, plant and equipment during the financial year was mainly due to capital expenditure incurred in relation to our new breeding farms located in the Hainan Province (China) and Thailand. In addition, there were on-going improvements to the infrastructure of the Singapore and other overseas farm facilities, so as to enhance operational efficiency.

(ii) Investment Property

Investment property relates to a piece of freehold land situated in Batu Pahat ("Property"), which was transferred to the Group as partial settlement of the outstanding amounts due from the purchasers of Kim Kang Aquaculture Sdn Bhd ("Kim Kang"), a former subsidiary of the Group and the advances extended to Kim Kang before its disposal. The cost of the Property was determined based on an independent valuation exercise performed.

The Group intends to dispose of the Property for cash consideration. It will also explore the various alternatives in utilising the Property while awaiting for it to be disposed.

(iii) Intangible assets

	Group and Company	
	31 Dec 2017	**31 Dec 2016**
	$	$
Trademarks/customer acquisition costs/ formulation rights	3,971,497	1,471,497
Product listing fees	196,153	196,153
	4,167,650	1,667,650
Less accumulated amortisation	(816,937)	(778,270)
	3,350,713	889,380

Notes to Statements of Financial Position (cont'd)

(iii) **Intangible assets (cont'd)**

Trademarks/customer acquisition costs/formulation rights relate to costs paid to third parties in relation to: -

- acquisition of trademarks rights and existing customer base of certain brands of pet food. Such costs were determined to have indefinite lives and are tested for impairment annually; and
- acquisition of trademarks and formulation rights of certain products, which are amortised over 25 years.

The increase in trademarks/customer acquisition costs/formulation rights as at 31 December 2017 was due to the acquisition of trademarks and formulation rights of a product amounting to $2.5 million during the 4th quarter of 2017.

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

(iv) **Brooder stocks**

	Group and Company	
	31 Dec 2017	**31 Dec 2016**
	$	$
Cost		
Balance as at 1 Jan	9,250,000	9,475,000
Additions during the year	1,400,000	2,800,000
Disposals during the year	-	(3,025,000)
Balance as at 31 Dec	10,650,000	9,250,000
Accumulated depreciation		
Balance as at 1 Jan	1,070,251	1,109,417
Depreciation charge for the year	197,731	187,254
Disposals during the year	-	(226,420)
Balance as at 31 Dec	1,267,982	1,070,251
Net carrying value		
Balance as at 31 Dec	9,382,018	8,179,749

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 accumulated impairment loss, if any.

The increase in brooder stocks as at 31 December 2017 was related to brooder stocks transferred to the Group as partial settlement of the outstanding amounts due from the purchasers of Kim Kang Aquaculture Sdn Bhd ("Kim Kang"), a former subsidiary of the Group and the advances extended to Kim Kang before its disposal.

Notes to Statements of Financial Position (cont'd)

(v) Investments in subsidiaries

The details of subsidiaries are as follows:

Name of subsidiary	Effective equity interest held by the Group		Cost of investment by the Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	%	%	$	$
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	171,951	171,951
- Qian Hu The Pet Family (M) Sdn Bhd (Malaysia)	100	100	-	-
Qian Hu Development Sdn Bhd (Malaysia)	100	100	16,000	16,000
Beijing Qian Hu Aquarium and Pets Co., Ltd (People's Republic of China)	100	100	171,824	171,824
Shanghai Qian Hu Aquarium and Pets Co., Ltd (People's Republic of China)	100	100	1,086,516	1,086,516
Guangzhou Qian Hu OF Feed Co., Ltd (People's Republic of China)	100	100	126,170	126,170
Guangzhou Qian Hu Aquarium and Pets Co., Ltd (People's Republic of China)	100	100	69,000	69,000
Qian Hu Aquaculture (Hainan) Co., Ltd (People's Republic of China)	51 #	-	625,936	-
Qian Hu Marketing Co Ltd (Thailand)	74	74	148,262	148,262
Thai Qian Hu Company Limited and its subsidiary: (Thailand)	60	60	121,554	121,554
- Advance Aquatic Co., Ltd (Thailand)	60	60	-	-
NNTL (Thailand) Limited (Thailand)	49 *	49 *	30,999	30,999
P.T. Qian Hu Joe Aquatic Indonesia (Indonesia)	90	90	381,459	381,459
			3,006,721	2,380,785

Incorporated in December 2016 with a registered and paid up capital of Rmb 6 million.
* The Company has voting control at general meetings & Board meetings of NNTL (Thailand) Limited.

In November 2017, the Company incorporated a 60% owned subsidiary, Tian Tian Fisheries (Hainan) Co., Ltd, with a registered capital of Rmb 3 million. As at 31 December 2017, the Company has not made any capital contribution into this subsidiary.

Notes to Statements of Financial Position (cont'd)

(vi) Investment in associate

The details of associate is as follows:

	Group		Company	
	31 Dec 2017	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
	$	$	$	$
Unquoted equity investment	-	812,600	-	812,600
Less				
Share of post-acquisition losses	-	(313,197)	-	-
Impairment loss on investment	-	(221,779)	-	(400,000)
	-	277,624	-	412,600

Name of associate	Principal activities	Effective equity held by the Group	
		31 Dec 2017	**31 Dec 2016**
		%	%
Arcadia Products PLC (United Kingdom)	Manufacture and distribution of aquarium lamps	-	20

The Group has disposed of its entire equity interest in Arcadia Products PLC in the 4th quarter of 2017 for a cash consideration of approximately $222K.

(vii) Trade and other receivables

Trade and other receivables (non-current) relates to amount due from Guangzhou Qian Hu Aquarium and Pets Accessories Manufacturing Co., Ltd ("GZQH"), a former subsidiary of the Group. Based on a repayment arrangement entered into with GZQH in FY 2017, $1.0 million of the receivables as at 31 December 2017 is due on 31 December 2018 and the remaining amount of $9.0 million is not expected to be repaid within the next 12 months.

The recoverability of the amount due from GZQH of approximately $7.3 million (31/12/2016: $7.7 million) is guaranteed by a major shareholder of the Company and a director of the Company.

(viii) Breeder stocks

	Group and Company	
	31 Dec 2017	**31 Dec 2016**
	$	$
Balance as at 1 Jan	66,780	24,780
Change in fair value less estimated point-of-sale costs	(6,270)	-
Decreases due to sales	(1,007,070)	(458,310)
Net increase due to births	1,043,310	500,310
Balance as at 31 Dec	96,750	66,780

Notes to Statements of Financial Position (cont'd)

(viii) Breeder stocks (cont'd)

Breeder stocks are off-springs of the brooder stocks, held for trading purposes. As at the reporting date, these stocks are measured based on their fair value, which is determined based on the age, breed and genetic merit of similar fish that can be purchased from another supplier. The increase in breeder stocks balance as at 31 December 2017 was mainly due to difference in quantity, valuation and product mix in relation to the breeder stocks held as at both reporting dates.

(ix) Inventories

	Group		Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	$	$	$	$
Fish	3,101,432	2,846,279	2,161,708	2,038,362
Accessories	11,954,204	12,115,850	4,763,058	4,937,214
Plastics products - raw materials	315,641	284,783	-	-
Plastics products - finished goods	558,909	607,713	-	-
	15,930,186	15,854,625	6,924,766	6,975,576
Less allowance for inventory obsolescence	(345,790)	(401,790)	(252,000)	(308,000)
	15,584,396	15,452,835	6,672,766	6,667,576

(x) Trade receivables

	Group		Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	$	$	$	$
Trade receivables	19,344,587	19,936,636	11,685,352	12,584,669
Less allowance for doubtful trade receivables	(2,352,700)	(2,377,481)	(2,157,007)	(2,289,290)
	16,991,887	17,559,155	9,528,345	10,295,379

Our conscientious efforts made in monitoring and collection of trade receivables balances has resulted in the decrease in the amount of trade receivables as at 31 December 2017.

Notes to Statements of Financial Position (cont'd)

(xi) Other receivables, deposits and prepayments

	Group		Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	$	$	$	$
Other receivables *	2,255,847	2,956,216	1,471,196	2,827,386
Deposits	305,421	276,012	38,753	45,182
Prepayments	1,114,194	1,165,334	169,527	170,586
Advances to suppliers	526,212	636,309	420,270	595,821
Deposits for purchase of property, plant and equipment	632,390	1,212,651	-	263,764
Tax recoverable	38,048	51,910	-	-
	4,872,112	6,298,432	2,099,746	3,902,739

* Other receivables as at 31 December 2017 consist of the outstanding amounts due from the purchasers of Kim Kang of approximately $1.36 million (31/12/16: $2.76 million), which was overdue. It has been agreed that the overdue amounts will be settled within a maximum of 24 months commencing 1 January 2017. As such, we do not foresee any collectability issue in relation to the receivables past due.

The decrease in deposits for purchase of property, plant and equipment was mainly in relation to the infrastructure construction works undertaken by our Thailand subsidiary which has been capitalised as property, plant and equipment upon its completion.

(xii) Due from associate

With the disposal of the associate in the 4th quarter of 2017, the Group's trade balances due from associate has been reclassified as trade receivables.

Notes to Statements of Financial Position (cont'd)

(xiii) Share capital

	Number of shares	$
Ordinary shares issued and fully paid		
Balance as at 1 Jan 2017 and 31 Dec 2017	113,526,467	30,772,788

There was no movement in the issued and paid-up capital of the Company since 31 December 2016.

There were no outstanding convertibles as at 31 December 2017 (31/12/2016: Nil).

The Company did not hold any treasury shares as at 31 December 2017 (31/12/2016: Nil). There were no sale, transfer, disposal, cancellation and use of treasury shares during the financial year ended 31 December 2017.

(xiv) Loans and borrowings

	Group		Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	$	$	$	$
Non-current liabilities				
Finance lease liabilities	245,784	364,249	144,396	241,311
	245,784	364,249	144,396	241,311
Current liabilities				
Term loans				
- short-term (unsecured)	15,000,000	14,500,000	15,000,000	14,500,000
- long-term (secured)	65,600	142,208	-	-
Bills payable to banks (unsecured)	765,636	353,721	531,948	196,696
Finance lease liabilities	207,894	209,165	85,245	74,398
	16,039,130	15,205,094	15,617,193	14,771,094
Total borrowings	16,284,914	15,569,343	15,761,589	15,012,405

The Group and the Company are in compliance with all borrowing covenants for the financial years ended 31 December 2016 and 2017.

The unsecured short-term loans are revolving bank loans that bear interest at rates ranging from 1.97% to 3.00% (31/12/2016: 1.69% to 2.00%) per annum and are repayable within the next 12 months from the reporting date.

Notes to Statements of Financial Position (cont'd)

(xiv) **Loans and borrowings (cont'd)**

The long-term loan is a bank loan of Baht 8.0 million, drawndown by a subsidiary, secured by a mortgage on the subsidiary's freehold land and is callable on demand. It bears interest at 6.75% (31/12/2016: 6.75%) per annum and is payable in 50 monthly instalments commencing September 2014.

The weighted average effective interest rates per annum relating to bills payable to banks of the Group and of the Company are 5.04% (31/12/2016: 5.09%) and 5.25% (31/12/2016: 5.25%) respectively. These bills mature within one to four months from the reporting date.

As at 31 December 2017, there were corporate guarantees given by the Company to financial institutions for banking facilities extended to subsidiaries amounting to approximately $1.7 million (31/12/2016: $1.7 million).

(xv) **Other payables and accruals**

	Group		Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	$	$	$	$
Accrued operating expenses	358,408	529,817	259,746	451,629
Accrued staff costs	1,336,338	1,239,982	952,522	807,707
Other payables	3,980,737	1,655,057	3,004,838	1,291,925
Advance received from customers	314,043	375,790	219,550	112,662
	5,989,526	3,800,646	4,436,656	2,663,923

The increase in other payables and accruals as at 31 December 2017 was mainly due to the increase in non-trade payable in relation to the acquisition of trademarks and formulation rights of a product during the 4th quarter of 2017.

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1(c) **STATEMENT OF CASH FLOWS**
FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Group		Group	
	3 months ended 31 Dec		Financial year ended 31 Dec	
	2017	2016	2017	2016
	$	$	$	$
Cash flows from operating activities				
Profit (loss) before tax	191,692	(128,609)	760,733	(10,168)
Adjustments for:				
Bad trade receivables (recovered) written off	(7,016)	9,051	6,815	44,334
Depreciation of				
- property, plant and equipment	410,469	420,908	1,658,914	1,666,899
- brooder stocks	52,282	46,250	197,731	187,254
Amortisation of intangible asset	22,167	3,668	38,667	3,668
(Gain) Loss on disposal of				
- property, plant and equipment	(13,578)	(17,309)	(62,981)	(78,310)
- brooder stock	-	-	-	(1,420)
- an associate	45,723	-	45,723	-
Property, plant and equipment written off	-	112	296	435
Change in fair value less estimated point-of-sale costs of breeder stocks	6,270	-	6,270	-
Allowance for (Write back of allowance for)				
- doubtful trade receivables	399,264	39,201	615,602	177,817
- inventory obsolescence	(56,000)	-	(56,000)	(17,000)
Share of losses of associate	-	19,471	10,401	29,839
Interest expense	105,001	79,543	386,918	339,429
Interest income	(2,725)	(3,348)	(6,878)	(9,347)
Operating profit before working capital changes	1,153,549	468,938	3,602,211	2,333,430
(Increase) Decrease in:				
Inventories	126,553	918,467	(20,167)	769,812
Breeder stocks	(6,210)	(30,240)	(36,240)	(42,000)
Trade receivables	(308,319)	51,766	84,317	(211,686)
Other receivables, deposits and prepayments	1,282,149	306,488	738,144	163,787
Due from associate (trade)	-	(98,790)	-	(37,033)
Increase (Decrease) in:				
Trade payables	(252,233)	511,735	(71,054)	833,077
Bills payable to banks	7,948	(275,662)	408,512	(225,415)
Other payables and accruals	2,091,641	14,502	2,193,556	(323,601)
Cash generated from operating activities	4,095,078	1,867,204	6,899,279	3,260,371
Tax (paid) refund	(38,559)	39,801	(174,256)	(184,622)
Net cash from operating activities	4,056,519	1,907,005	6,725,023	3,075,749
Cash flows from investing activities				
Purchase of				
- property, plant and equipment	(543,577)	(850,387)	(2,445,535)	(1,854,627)
- intangible asset	(2,500,000)	(550,000)	(2,500,000)	(550,000)
- investment property	-	(49,941)	-	(49,941)
Proceeds from disposal of				
- property, plant and equipment	13,774	18,090	81,815	87,842
- an associate	221,500	-	221,500	-
Acquisition of a subsidiary, net of cash and cash equivalents (Note i)	-	7,947	-	7,947
Interest received	2,725	3,348	6,878	9,347
Net cash used in investing activities	(2,805,578)	(1,420,943)	(4,635,342)	(2,349,432)

QIAN HU CORPORATION LIMITED
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1(c) **STATEMENT OF CASH FLOWS**
FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2017 (cont'd)

	Group		Group	
	3 months ended 31 Dec		Financial year ended 31 Dec	
	2017	2016	2017	2016
	$	$	$	$
Cash flows from financing activities				
Drawdown of bank term loans	500,000	1,000,000	500,000	1,000,000
Capital contribution from non-controlling interests	197,419	-	602,700	-
Repayment of				
- finance lease liabilities	(67,783)	(30,620)	(253,102)	(146,474)
- bank term loans	(20,112)	(20,832)	(78,720)	(77,568)
Payment of dividends to				
- owners of the Company	-	-	-	(227,052)
- non-controlling interests	-	-	(82,000)	-
Interest paid	(102,720)	(78,089)	(385,287)	(338,476)
Net cash from financing activities	506,804	870,459	303,591	210,430
Net increase in cash and cash equivalents	1,757,745	1,356,521	2,393,272	936,747
Cash and cash equivalents at beginning of period/year	9,342,414	7,330,878	8,723,403	7,771,930
Effect of exchange rate changes on cash balances held in foreign currencies	23,795	36,004	7,279	14,726
Cash and cash equivalents at end of period/year	11,123,954	8,723,403	11,123,954	8,723,403

Notes to Statement of Cash Flows

(i) The attributable assets and liabilities of the subsidiary acquired and the cash flow effect of the acquisition are set out as follows:

	Group	
	Financial year ended 31 Dec	
	2017	2016
	$	$
Property, plant and equipment	-	2,965
Inventories	-	513,993
Trade and other receivables	-	246,873
Cash and cash equivalents	-	76,947
Trade and other payables	-	(771,003)
Total identificable net assets	-	69,775
Less:		
Goodwill on acquisition	-	(775)
Total purchase consideration	-	69,000
Less:		
Cash and cash equivalents acquired	-	(76,947)
Net cash inflow from acquisition of subsidiary	-	(7,947)

1(c) **STATEMENT OF CASH FLOWS**
FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2017 (cont'd)

Notes to Statement of Cash Flows (cont'd)

(ii) Overall, our cash and cash equivalents increased by approximately $1.8 million and $2.4 million from a quarter and a year ago respectively.

The improvement in **net cash from operating activities** in the current quarter and for FY 2017 as compared to the corresponding periods in 2016 was mainly due to higher profit generated during the periods, as well as our ability to better manage our cash flow by extending our credit terms with our regular suppliers for purchases made.

Net cash used in investing activities was mainly related to capital expenditure incurred in relation to our new breeding farms located in the Hainan Province (China) and Thailand, as well as on-going improvements to the infrastructure of the Singapore and other overseas farm facilities. In addition, there was $2.5 million incurred in relation to the acquisition of the trademarks and formulation rights of a product during the 4th quarter of 2017.

Net cash from financing activities in the 4th quarter of 2017 and FY 2017 was related to cash proceeds received from additional drawdown of bank term loans, as well as capital contribution received from the non-controlling shareholder of a newly incorporated subsidiary, which were mainly utilised for the payment of dividend to the non-controlling shareholder of a subsidiary, the settlement of finance lease liabilities on a monthly basis and the servicing of interest payments.

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1(d)(i) **STATEMENTS OF CHANGES IN EQUITY**

	Attributable to owners of the Company					
Group	**Share capital** $	**Retained earnings** $	**Translation reserve** $	**Total** $	**Non-Controlling interests** $	**Total Equity** $
Balance at 1 Jan 2016	30,772,788	18,969,013	(1,069,109)	48,672,692	1,635,086	50,307,778
Total comprehensive income for the year						
Profit for the year	-	67,821	-	67,821	254,364	322,185
Other comprehensive income						
Foreign currency translation differences for foreign operations, net of tax	-	-	31,918	31,918	58,939	90,857
Total other comprehensive income	-	-	31,918	31,918	58,939	90,857
Total comprehensive income for the year	-	67,821	31,918	99,739	313,303	413,042
Transactions with owners, recognised directly in equity						
Distributions to owners						
Payment of first and final dividend	-	(227,052)	-	(227,052)	-	(227,052)
Total transactions with owners	-	(227,052)	-	(227,052)	-	(227,052)
Balance at 31 Dec 2016	30,772,788	18,809,782	(1,037,191)	48,545,379	1,948,389	50,493,768
Total comprehensive income for the year						
Profit for the year	-	329,369	-	329,369	219,748	549,117
Other comprehensive income						
Foreign currency translation differences for foreign operations, net of tax	-	-	43,720	43,720	(54,659)	(10,939)
Total other comprehensive income	-	-	43,720	43,720	(54,659)	(10,939)
Total comprehensive income for the year	-	329,369	43,720	373,089	165,089	538,178
Transactions with owners, recognised directly in equity						
Changes in ownership interests						
Incorporation of subsidiary with non-controlling interests	-	-	-	-	602,700	602,700
Total transactions with owners	-	-	-	-	602,700	602,700
Balance at 31 Dec 2017	30,772,788	19,139,151	(993,471)	48,918,468	2,716,178	51,634,646

1(d)(i) **STATEMENTS OF CHANGES IN EQUITY (cont'd)**

Company	**Share capital** $	**Retained earnings** $	**Translation reserve** $	**Total** $
Balance at 1 Jan 2016	30,772,788	11,395,914	(41,827)	42,126,875
Total comprehensive income for the year				
Loss for the year	-	(631,842)	-	(631,842)
Other comprehensive income				
Foreign currency translation differences for foreign operations, net of tax	-	-	22,576	22,576
Total other comprehensive income	-	-	22,576	22,576
Total comprehensive income for the year	-	(631,842)	22,576	(609,266)
Transactions with owners, recognised directly in equity				
Distributions to owners				
Payment of first and final dividend	-	(227,052)	-	(227,052)
Total transactions with owners	-	(227,052)	-	(227,052)
Balance at 31 Dec 2016	30,772,788	10,537,020	(19,251)	41,290,557
Total comprehensive income for the year				
Loss for the year	-	(849,690)	-	(849,690)
Other comprehensive income				
Foreign currency translation differences for foreign operations, net of tax	-	-	9,305	9,305
Total other comprehensive income	-	-	9,305	9,305
Total comprehensive income for the year	-	(849,690)	9,305	(840,385)
Balance at 31 Dec 2017	30,772,788	9,687,330	(9,946)	40,450,172

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 the new and revised 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 most recent audited annual financial statements as at 31 December 2016.

5 **CHANGES IN ACCOUNTING POLICIES**

During the current financial year, the Group and the Company have adopted the following amendments to FRS which took effect from financial year beginning 1 January 2017:

- Amendments to FRS 7 *Disclosure Initiative*
- Amendments to FRS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to FRS 112 *Clarification of Scope of Standards*

The adoption of the above amendments to FRS is assessed to have no financial effect on the results and financial position of the Group and of the Company for the current and the previous financial years. Accordingly, it has no impact on the earnings per share of the Group and of the Company.

6 **EARNINGS PER ORDINARY SHARE**

	Group		**Group**	
	3 months ended 31 Dec		**Financial year ended 31 Dec**	
	2017	**2016**	**2017**	**2016**
Earnings Per Ordinary Share (based on consolidated net profit attributable to owners)				
- on weighted average number of ordinary shares on issue (cents)	0.11	0.03	0.29	0.06
- on a fully diluted basis (cents)	0.11	0.03	0.29	0.06

Earnings per ordinary share on existing issued share capital is computed based on the weighted average number of shares in issue of 113,526,467 for both periods.

There is no difference between the basic and diluted earnings per share.

7 **NET ASSET VALUE PER SHARE**

	Group		Company	
	31 Dec 2017	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Net asset value per share based on existing issued share capital as at the respective dates (cents)	45.48	44.48	35.63	36.37

Net asset value per share for both periods is computed based on the number of shares in issue of 113,526,467.

8 **REVIEW OF GROUP PERFORMANCE**

(a) **Revenue**

Financial year 2017 vs financial year 2016

	Group Financial year ended 31 Dec		Increase	
	2017	**2016**		
	$'000	$'000	$'000	%
Fish	35,168	31,678	3,490	11.0
Accessories	40,936	37,649	3,287	8.7
Plastics	11,720	11,143	577	5.2
	87,824	80,470	7,354	9.1

For the year ended 31 December 2017, the ornamental fish and accessories activities continued to be our core business segments, which together accounted for approximately 86.7% of the total revenue. Our revenue increased by approximately $7.3 million or 9.1% from $80.5 million registered in FY 2016 to $87.8 million in FY 2017. All business segments registered improvement in revenue contribution during the current financial year.

On a geographical basis, revenue from Singapore and overseas grew by approximately 4.0% and 11.3% respectively in FY 2017 as compared to FY 2016.

4Q 2017 vs 4Q 2016

	Group		Increase (Decrease)	
	4Q 2017	**4Q 2016**		
	$'000	$'000	$'000	%
Fish	8,709	7,974	735	9.2
Accessories	10,458	11,215	(757)	(6.7)
Plastics	2,875	2,923	(48)	(1.6)
	22,042	22,112	(70)	(0.3)

Although the revenue from our ornamental fish activities registered growth of approximately $0.7 million or 9.2% in the 4th quarter of 2017 as compared to its corresponding period in 2016, the reduction in our accessories revenue has resulted in a marginal decrease in our overall revenue in the current quarter as compared to its corresponding period in 2016.

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

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

4Q 2017 vs 4Q 2016 (cont'd)

Fish
Our Dragon Fish sales continue to grow in tandem with the other ornamental fish revenue in the current quarter. We have since strived to gradually increase our export of ornamental fish by diversifying to more customers and more countries around the world from our export hubs in Singapore, Malaysia, Thailand and Indonesia, which have given rise to the improved ornamental fish revenue by approximately $0.7 million or 9.2% in the current quarter as compared to its corresponding period in 2016.

Accessories
With our accessories business being more export-oriented, we managed to leverage on our Group's existing overseas distribution bases & network and the infrastructure available to explore more untapped markets with growth potential.

During the 4th quarter of 2017, we saw a dip in revenue contribution from our accessories business by approximately $0.8 million or 6.7% as we experience the loss of sales resulting from the delay in the shipment of products to certain overseas customers due to the change in import regulations of those countries (such as Indonesia). These orders will only be delivered in FY 2018 after the fulfilment of the new requirements. In addition, there was a one-off increase in sales from a major customer following the acquisition of a new subsidiary in Guangzhou in the 4th quarter of 2016, which has lifted the revenue contribution registered for this business segment in that quarter.

Plastics
Revenue from our plastics business remained relatively consistent in the current quarter, comparable to that of the corresponding period in 2016.

4Q 2017 vs 3Q 2017

	Group		Increase (Decrease)	
	4Q 2017	**3Q 2017**		
	$'000	$'000	$'000	%
Fish	8,709	8,976	(267)	(3.0)
Accessories	10,458	10,440	18	0.2
Plastics	2,875	3,066	(191)	(6.2)
	22,042	22,482	(440)	(2.0)

Although our accessories activities registered stable revenue in the 4th quarter of 2017 as compared to its previous quarter, the reduction in our ornamental fish and plastic revenue has resulted in a decrease in overall revenue by approximately $0.5 million or 2.0% from approximately $22.5 million in 3rd quarter 2017 to $22.0 million in the 4th quarter of 2017.

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

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

4Q 2017 vs 3Q 2017

Fish
During the 3rd quarter of 2017, our ornamental fish revenue included sales generated from our newly-incorporated subsidiary in Hainan Province, China, which farms antibiotic-free edible fish. As the first phase of the operations (involving the growing of edible fish fries to marketable fingerlings) took a period of 6 months (from March to September 2017), the sales derived from this business activity in 4th quarter of 2017 was marginal, resulting in a dip in revenue contribution in the current quarter as compared to the previous quarter.

Nonetheless, the above reduction was partially mitigated by the increase in revenue contribution from the ornamental fish export business as the demand from our European customers, who would mostly take off for their own vacation during the summer holidays, picked up during the current quarter.

Accessories
Revenue from accessories business remained relatively consistent in the current quarter, comparable to that of the previous quarter.

Plastics
Revenue from our plastics activities registered a decrease of $0.2 million or 6.2% in the 4th quarter of 2017 as compared to the previous quarter as its revenue contribution was escalated by a one-off increase in orders from a major customer in the 3rd quarter of 2017.

(b) **Profitability**

Financial year 2017 vs financial year 2016

	Group			
	Financial year ended 31 Dec		Increase	
	2017	2016	(Decrease)	
	$'000	$'000	$'000	%
Fish	1,087	555	532	95.9
Accessories	1,481	764	717	93.8
Plastics	959	851	108	12.7
Unallocated corporate expenses	(2,720)	(2,180)	(540)	(24.8)
	807	(10)	817	NM
Loss on disposal of an associate	(46)	-	(46)	
	761	(10)	771	NM

In line with the higher overall revenue contribution registered, our operating profit increased by approximately $0.8 million in FY 2017 as compared to FY 2016, with the considerable improvement in profit generated from our core business segments.

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

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

4Q 2017 vs 4Q 2016

	Group		Increase (Decrease)	
	4Q 2017	**4Q 2016**		
	$'000	$'000	$'000	%
Fish	243	(58)	301	519.0
Accessories	411	175	236	134.9
Plastics	246	199	47	23.6
Unallocated corporate expenses	(662)	(444)	(218)	(49.1)
	238	(128)	366	285.9
Loss on disposal of an associate	(46)	-	(46)	
	192	(128)	320	250.0

As a result of the improvement in overall revenue contribution, the operating profit generated from all business activities registered positive growth in the 4th quarter of 2017 as compared to its corresponding period in 2016.

Fish
The higher revenue contribution from our ornamental fish business registered in the 4th quarter of 2017, coupled with the difference in sales mix, and the reliance and resilient of our ornamental fish export business, has continued to generate respectable profit margins during the current quarter as compared to its corresponding period in 2016.

Accessories
Despite the lower revenue contribution in the 4th quarter of 2017, the better profit yielded from our accessories activities in the current quarter was primarily due to our conscientious efforts made to capture more markets through the selling of more proprietary brand of innovative products with better margins.

In addition, during the 4th quarter of 2016, there were initial costs incurred in aligning the business activities of the newly acquired subsidiary in Guangzhou into the operation framework of the Group, which has affected the profitability of this business segment in FY 2016.

Plastics
The increase in operating profit from our plastics activities despite the reduction in revenue contribution in the 4th quarter of 2017 was mainly due to improved profit margins as a result of the favourable raw material prices as compared to its corresponding period in 2016.

Unallocated corporate expenses
These were staff costs and corporate/administrative expenses incurred in relation to the overseeing of both the Group's local and overseas operations. The increase in corporate expenses during the current quarter, as compared to its corresponding period in 2016, was mainly due to expenses incurred in relation to a brand building exercise conducted by the Group to realign and refresh our brand strategies, with the aim to improve on our product offerings in order to better cater for our customers' needs.

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

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

4Q 2017 vs 3Q 2017

	Group		Increase (Decrease)	
	4Q 2017	3Q 2017		
	$'000	$'000	$'000	%
Fish	243	439	(196)	(44.6)
Accessories	411	353	58	16.4
Plastics	246	290	(44)	(15.2)
Unallocated corporate expenses	(662)	(751)	89	11.9
	238	331	(93)	(28.1)
Loss on disposal of an associate	(46)	-	(46)	
	192	331	(139)	(42.0)

Fish

The decline in profitability from our ornamental fish business in 4th quarter of 2017 as compared to the previous quarter was in line with the lower revenue contribution mainly from our edible fish business due to reasons as mentioned earlier. In addition, the fixed operating costs incurred in relation to the Group's aquaculture business during the current quarter despite its low sales, has constituted to the dip in profitability.

Accessories

The better profit yielded from our accessories activities were in accordance with the stable increase in revenue from 3rd quarter 2017 to 4th quarter of 2017 as well as the sales of more proprietary brand of innovative products with better margins.

Plastics

The relatively lower revenue registered by the plastic business in the current quarter, coupled with the difference in sales mix recorded in both quarters has given rise to the decline in its profitability quarter-on-quarter.

9 **VARIANCE FROM PROSPECT STATEMENT**

There is no variance from the previous prospect statement.

10 **PROSPECTS**

To be the world's Number 1 ornamental fish exporter

Ornamental fish will continue to be an important core business activity of our Group. Currently, we export ornamental fish to more than 80 cities and countries around the world from our export hubs in Singapore, Malaysia, Thailand, Indonesia and China. As Singapore, Malaysia, Thailand and Indonesia supply in total close to 60% to 70% of the world's ornamental fish, we believe that Qian Hu is the region's biggest exporter of ornamental fish, capturing more than 5% of the global market share in terms of ornamental fish export.

10 **PROSPECTS (cont'd)**

Our long-term goal is to gradually increase our global market share to 10% and that we are able to export ornamental fish to more than 100 cities and countries – this will make us the top ornamental fish exporter in the world. While we increase our efforts on expanding our export distribution network to more countries around the world, we will focus on high-growth regions such as the Middle East, Eastern Europe, China and India.

To breed Ornamental Fish of the highest value

Staying abreast of market trends that favour albino variants of the Asian Arowana, we have leveraged on our expertise in genetic breeding of unique Dragon Fish to expand our product offerings to take advantage of market demands.

We have since started the breeding of Albino Silver Arowana which, incidentally, are more productive than the Golden and Red Arowana varieties. Our expertise and experience in the breeding of these albino varieties has put us in a competitive advantage. Moving ahead, we intend to develop a whole new range of ornamental fish that are albino. We are collaborating with a team of researchers to develop this new genomic technology. We envisage that these new initiatives, which will gain pace in FY 2018, will improve the profitability of our ornamental fish business in the years to come.

To establish our "Ocean Free" and "OF" brands as the most recognisable among aquarium accessories brands in Asia

We will focus on building our "Ocean Free" and "OF" brands - the growth drivers for our accessories business segment. Our target is to expand our accessories business to more than 60 cities and countries. The premium brands for aquarium accessories, "Ocean Free" and "OF" continue to develop an exciting pipeline of innovative, proprietary products such as cutting-edge filtration and sterilisation systems as well as a wide range of new-generation aquarium accessories using our HYDROPURE technology, such as our latest HYDRA Filtron canister depurators. In addition, we have an early mover advantage with regard to fish nutrition – developing high quality, proprietary formulas that bring out the best in fish.

To be an innovative technology company

R&D remains a critical capability to drive innovation and product development throughout the Group. Our latest efforts have culminated in cutting-edge accessories, such as our latest HYDRA Filtron canister depurators that are powered by our cutting-edge HYDROPURE filtration technology; the "Revoreef" series of marine aquarium accessories, as well as our innovative fish feeds. Meanwhile, our Multi-Tier Automated Water Recirculation Tank Holding System is being replicated in our other export hubs located in Malaysia, Thailand and China, following the successful implementation of the automated system in our Singapore operations. This system has enabled us to reduce water usage while increasing fish handling capacity by as much as 50%. By utilising the same number of workers, we are able to raise productivity significantly. We are also on track for the development of a fish counting device that will monitor our fish inventory more efficiently and expediently.

Jumping on the e-commerce bandwagon to open new marketing channels, we have launched our online flagship store on the T-Mall (天猫) platform in China, which has been seeing healthy orders. We believe that our e-commerce strategy will enhance our brand positioning and accessibility, as well as reinforce our quality assurance to customers.

10 **PROSPECTS (cont'd)**

To produce antibiotic-free, sustainable edible fish for the benefit of our consumers and the environment

Leveraging on our proprietary HYDROPURE filtration technology, and our know-how in fish nutrition and antibiotic-free herbal medication, we have, in May 2017, successfully commenced operations of our first edible fish farm in the Hainan Province, China – farming and constantly delivering antibiotic-free groupers fingerlings in the Hainan region.

We are also teaming up with researchers in developing yeast-based fish nutrition to boost the immune system of seafood products. With this latest development in fish nutrition, our Group has, in November 2017, incorporated another company in Hainan, Tian Tian Fisheries (Hainan) Co., Ltd, to breed and farm shrimps/prawns. This newly set-up company, which is 60% owned by the Group, will also be exporting edible fish/seafood from Hainan to the Southeast Asia and importing edible fish/seafood from the rest of the world into China.

In the longer-term, it is our intention to become a fully-integrated aquaculture farm that is able to capture the entire value chain of edible fish/seafood from breeding to farming to the table. Currently, we are farming only the fingerlings of edible fish to various marketable sizes. Eventually, we expect to possess brooder stocks of edible fish/seafood for breeding purposes, so that we can build our product offerings to capture additional selling points throughout the product cycle.

By focusing on technology, innovation and quality, Qian Hu aspires to be the industry's most value-adding and productive provider of edible fish, ornamental fish and accessories. We also plan to green-label our seafood products, so as to effectively and efficiently reach out to regional and international markets that are increasingly environmentally conscious.

We are very excited about the prospects of the edible fish business. If we are able to execute it correctly, this business should be many times bigger than our ornamental fish, and we envisage the new aquaculture business to contribute positively to our Group's results in FY 2018.

The business landscape continues to be challenging, requiring us to be continually innovative, nimble and agile. Over the years, we have shown ourselves to be resilient, sparing no effort to transform ourselves so as to stay ahead of the competition and to strengthen our business fundamentals. We will continue to focus on innovation to expand our pipeline of compelling products particularly in the areas of filtration, fish nutrition and genetic breeding of unique Dragon Fish, as well as the sustainable farming of edible fish/seafood for the China consumer market. These initiatives will continue to position us favourably as we move ahead to achieve our vision of being the world's largest ornamental fish company.

11 **RISK FACTORS AND RISK MANAGEMENT**

Risk management forms an integral part of our business management. Our Group's risk and control framework is designed to provide reasonable assurance that our business objectives are met by embedding management control into daily operations to achieve efficiency, effectiveness and safeguarding of assets, ensuring compliance with legal and regulatory requirements, and ensuring the integrity of our Group's financial reporting and its related disclosures. It makes management responsible for the identification of critical business risks and the development and implementation of appropriate risk management procedures to address these risks. The risk management and control procedures are reviewed regularly to reflect changes in market conditions and the activities of our Group.

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

The following set out an overview of the key risks faced by Qian Hu, the nature and the extent of our exposure to these risks, and the mitigating actions in place in managing these risks.

BUSINESS AND STRATEGY RISKS

Strategy and investment risk

Our Group grows businesses through organic growth of our existing activities, development of new capabilities (e.g. product innovation) and through new ventures with business partners. Business proposals and investment activities are evaluated through performance of due diligence exercise and where necessary, supported by external professional advice, to ensure that they are in line with the Group's strategic focus and that they meet the relevant rate of financial returns, taking into consideration other risk factors. All business proposals are reviewed by the senior management before obtaining final Board approval.

Market and political risk

Our Group currently operates in five countries with assets and activities spreading across the Asia Pacific. Our subsidiaries in these countries are exposed to changes in government regulations and unfavourable political developments, which may limit the realisation of business opportunities and investments in those countries. In addition, our business operations are exposed to economic uncertainties that continue to affect the global economy and international capital markets. Although these circumstances may be beyond our control, the Board and the management consistently keep themselves up-to-date on the changes in political, economic and industrial developments so as to be able to anticipate and/or respond to any adverse changes in market conditions in a timely manner.

As at 31 December 2017, approximately 34% of our Group's assets are located overseas. Revenue from our overseas' customers constitute approximately 72% of the total revenue in FY 2017. As we currently export to more than 80 cities and countries and to more countries moving forward, the effect of greater geographical diversification reduces the risk of concentration in a single market.

Regulatory risk

Our Group's operations are subject to changes in prevailing laws and regulations in their respective jurisdictions, particularly in areas of corporate law, and possible local government interventions impacting the industry. To mitigate this risk, we maintain close working relationships with respective local authorities and business partners so as to keep abreast with any changes and/or material regulatory development. All necessary certificates and licences are obtained and renewed on a timely basis in accordance with applicable rules and regulations.

Competition risk

With increasing competition, every company is faced with some level of competitive risk. Our Group may possibly lose its competitive edge due to new market entrants or with the growth of existing competitors as well as the emerging of new and better receptive products.

Our Group strives to maintain its competitiveness through differentiation of its products and leveraging on its brand name while consistently monitoring and responding to market dynamics. Conscientious efforts are made in attaining high quality products and services while sustaining a low cost operations so as to improve its competitiveness, productivity and profitability.

In addition, Qian Hu has since invested perpetually in research and development activities in order to develop more innovative accessories products with its in-house proprietary technology to enhance its market competitiveness.

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

Reputation risk

Our Group may face negative publicity or diminution in public confidence if there are mishandling of transactions or events.

Qian Hu values its reputation and has instilled an open communication programme to ensure timely and effective communication of key information with its stakeholders (such as customers, public media, regulators, investor community, etc). It has a proven track record and reputation associated with its investor/public relations efforts which has won itself many awards in various aspects.

Clear corporate mission statements and guiding principles are also in place and communicated to all employees within the Group so as to uphold the reputation of the Group.

Fraud and corruption risk

Our Group places considerable importance on maintaining a strong control environment to ensure that risks are managed and business strategies are executed. Policies and procedures, delegation of authority, minimum internal controls and Code of Ethics have been defined and put into practice by all business entities. Together with compliance with laws and regulations, these established procedures and internal guidelines form the control environment for which all employees are accountable for compliance.

In addition, our Group has since in Year 2006 established a whistle-blowing policy under which employees and outsiders could, through well-defined and accessible channels, raise concerns in confidence about possible improprieties in matters of business activities, financial reporting or other matters to the Whistle-blowing Committee. The Committee is bound to report, within certain established timeline, the results of its investigation to the Audit Committee and to the Board.

Business continuity risk

An organisation may encounter unforeseen circumstances to prevent the continuation of its business operations such as during crisis or disasters.

Qian Hu recognises its exposure to internal and external threats and seeks to increase the resilience of the Group to potential business interruptions so as to minimise any disruptions to its critical business activities, people and assets. Over the years, we have focused on refining our business continuity management, including the setting up of an operational prevention and recovery framework, to ensure that it can continue to maintain our competitive advantage and to maximise value for our stakeholders.

OPERATIONAL RISKS

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. Our Group strives to minimise unexpected losses and manage expected losses through a series of quality and people management programs, as well as business continuity planning. In addition, we have been awarded ISO certifications for our local businesses as well as our overseas subsidiaries. We have also achieved ISO 14001 certification for our environmental management system to preserve natural resources and minimise wastage.

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

Operational risk (cont'd)

Although Qian Hu has always been viewed as a family business largely run and controlled by the Yap family, it is in fact run by a team of dedicated Qian Hu family members and professional managers, not solely by the Yap family members. Although no individual is indispensible, the loss of specialised skills and the leadership of our Executive Chairman & Managing Director, Mr Kenny Yap, and the other founding members, including our key management, could result in business interruptions and a loss in shareholders' confidence. To dispel the worries, we have since put in place a structured succession planning program to identify and develop a team of talented employees based on their merit, who can take Qian Hu to the next lap of growth. We believe that training a team of next-generation leaders is critical to the continuity of the business which should last beyond our generation.

Product 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 at any one point in time is uncommon. We have institutionalised 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 9001 certifications, including the breeding of Dragon Fish. There is no known disease that is fatal to the Dragon Fish because of its primitive and prehistoric origin.

Although our Dragon Fish sales contributed approximately 10% of our Group total revenue for the year ended 31 December 2017, we sell over 1,000 species and varieties of ornamental fish and more than 3,000 kinds of accessories products to more than 80 cities and countries and are not solely reliant on the sale of any particular type or species of fish or accessories products. We are diversified in both our products and markets.

Additionally, we have formed a R&D team in Year 2009, focusing on the research of Dragon Fish breeding behaviour, product innovation technology for aquarium accessories, and new form of ornamental fish farming technology.

Climate change and environmental risk

Climate change and environmental risk is a growing concern especially in the last few years. The recent spate of natural disasters and continuing threat of future occurrences have prompted companies, Qian Hu alike, to embark on strategic reviews on key areas such as infrastructure and logistics, to minimise the business impact of untoward events. Our Group will also explore the feasibility of pursuing high-end aquaculture, such as bio-secured farming of selected fish species, to mitigate and manage risks related to adverse weather conditions, and to ensure consistent supply of these fish species.

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

FINANCIAL RISKS

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. Natural hedging is used extensively including matching sales and purchases of the same currency and amount where applicable. Our Group continuously monitors the exchange rates of major currencies and may enter into hedging contracts with banks from time to time whenever the management detects any movements in the respective exchange rates which may impact the Group's profitability.

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

Exchange gain or loss which may also arise when the assets and liabilities in foreign currencies are translated into Singapore dollars for financial reporting purposes. Such currency translation risk, which is inherent for operations outside Singapore, is non-cash in nature and therefore not hedged.

Credit risk

Credit risk is the potential financial loss resulting from the failure of a customer or 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 customer or supplier contributes more than 5% of our Group's revenue and purchases. It is our Group's policy to sell to a diverse group of creditworthy customers so as to reduce concentration of credit risk. Cash terms or 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.

Interest rate risk

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

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.

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

Liquidity risk

The objective of liquidity management is to ensure that our Group has sufficient funds to meet our contractual and financial obligations as and when they fall due. To manage liquidity risk, we monitor our net operating cash flow and maintain 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. Over the years, our Group has enhanced its ability to generate cash from operating activities. Accordingly, we envisage that our cash position will continue to improve, hence reducing liquidity risk.

Financial management risk

Our Group has formalised operating manuals and standard operating procedures to ensure that transactions are carried out in conformity with accounting standards and the Group's accounting policies and that the internal controls over financial reporting are adequate so as to minimise such risk. Nonetheless, the system may not prevent or detect all frauds or misstatements in a timely manner, especially with changes in conditions and operations which may cause the system effectiveness to vary from time to time.

We have relied on self-assessment, regular review and the reporting process to ensure proper financial discipline and compliance with established Group's policies and guidelines. External and internal audit reviews carried out annually on the controls and procedures in place also serves as a platform to highlight any irregularities.

Capital structure risk

In managing capital, our Group's objectives are to safeguard its ability to continue as a going concern and to maintain an optimal capital structure so as to provide appropriate returns to shareholders and benefits for other stakeholders through pricing its products and services at levels commensurate with the level of risks it is exposed to.

The capital structure of the Group consists of loans and borrowings, issued share capital and retained earnings. Regular review are performed to ensure optimal capital structure taking into consideration future capital requirements and capital efficiency, prevailing operating cash flow and profitability as well as projected capital expenditure. In order to maintain or achieve an optimal capital structure, we may issue new shares, obtain new bank borrowings, sell assets to reduce external borrowings, pay or adjust the amount of dividend payment or return capital to shareholders.

The Group also monitors its gross gearing, net gearing and their trends.

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	First & final
Dividend type	Cash
Dividend rate	0.2 cents per ordinary share
Tax rate	One-tier tax exempt

(b) **Previous corresponding period**

There was no final dividend recommended in respect of the financial year ended 31 December 2016 as cash were utilised for the renewal of the land leases of the Singapore farm and for the investment in our new aquaculture business in FY 2017.

(c) **Total annual dividend**

	Latest year ($'000)	Previous year ($'000)
Ordinary	227	Nil
Preference	Nil	Nil
Total:	227	Nil

(d) **Date payable**

Subject to shareholders' approval at the Annual General Meeting to be held on 28 March 2018, the dividend will be paid on 25 April 2018.

(e) **Books closure date**

Registrable Transfers received by the Company's Registrar, M & C Services Private Limited, at 112 Robinson Road #05-01, Singapore 068902, up to 5:00 pm on 12 April 2018 will be registered before entitlements to the proposed dividend are determined. The Register of Transfer and the Register of Members of the Company will be closed on 13 April 2018 for the preparation of dividend warrants.

13 **INTERESTED PERSON TRANSACTIONS**

The Group does not have a general mandate from shareholders for interested person transactions pursuant to Rule 920 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST").

13 **INTERESTED PERSON TRANSACTIONS (cont'd)**

During the financial year, there were interested person transactions based on terms agreed between the parties as follows:-

	Group		Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	$	$	$	$
Guarantee fee paid to a major shareholder of the Company *	31,000	33,000	31,000	33,000
Consultancy fees paid to a company in which a director has a substantial interest	8,300	8,300	8,300	8,300

** The Group and the Company are charged a guarantee fee of 0.5% per annum on the average balance of the outstanding amounts due from GZQH, a former subsidiary. The guarantee fee is payable to a major shareholder of the Company, for guaranteeing the payment of the outstanding amounts.*

Except for the above, there was no other interested person transaction, as defined in Chapter 9 of the Listing Manual of the SGX-ST, entered into by the Group or by the Company during the financial year ended 31 December 2017.

14 **SEGMENT INFORMATION**

(a) **Business segments**

The Group's operating segments are its strategic business units which offer different products and are managed separately. The reportable segment presentation is based on the Group's management and internal reporting structure used for its strategic decision-making purposes.

The Group's activities comprise the following reportable segments:
(i) Fish - includes fish farming, breeding, distribution and trading of ornamental fish;
(ii) Accessories - includes manufacturing and distribution of aquarium and pet accessories;
(iii) Plastics - includes manufacturing and distribution of plastic bags; and
(iv) Others - includes Corporate Office and consolidation adjustments which are not directly attributable to a particular business segment above.

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

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

	Financial year ended 31 Dec 2017				
	Fish	**Accessories**	**Plastics**	**Others**	**Total**
Group	$'000	$'000	$'000	$'000	$'000
Revenue					
External revenue	35,168	40,936	11,720	-	87,824
Inter-segment revenue	1,753	4,860	138	(6,751)	-
Total Revenue	36,921	45,796	11,858	(6,751)	87,824
Results					
EBITDA *	2,317	2,004	1,161	(2,390)	3,092
Depreciation and amortisation	(1,218)	(479)	(198)	-	(1,895)
Interest expense	(17)	(36)	(4)	(330)	(387)
Interest income	5	2	-	-	7
	1,087	1,491	959	(2,720)	817
Loss on disposal of an associate	-	(46)	-	-	(46)
Share of losses of associate	-	(10)	-	-	(10)
Profit before tax	1,087	1,435	959	(2,720)	761
Tax expense	(51)	(161)	-	-	(212)
Profit for the year	1,036	1,274	959	(2,720)	549
Net profit margin	**2.9%**	**3.1%**	**8.2%**		**0.6%**
Assets and Liabilities					
Segment assets	38,070	37,120	5,039	1,405	81,634
Segment liabilities	7,015	5,324	2,152	15,508	29,999
Other Segment Information					
Expenditures for non-current assets **	4,343	431	301	-	5,075
Other non-cash items:					
Bad trade receivables written off	7	-	-	-	7
Gain on disposal of property, plant and equipment	(29)	(3)	(31)	-	(63)
Allowance for (Write back of allowance for)					
- doubtful trade receivables	122	491	3	-	616
- inventory obsolescence	-	(56)	-	-	(56)
Change in fair value less estimated point-of-sale costs of breeder stocks	6	-	-	-	6

* *EBITDA – Earnings Before Interest, Taxation, Depreciation and Amortisation.*
** *This includes capital expenditure and additions to other non-current assets.*

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

(a) Business segments (cont'd)

	Financial year ended 31 Dec 2016				
	Fish	**Accessories**	**Plastics**	**Others**	**Total**
Group	$'000	$'000	$'000	$'000	$'000
Revenue					
External revenue	31,678	37,649	11,143	-	80,470
Inter-segment revenue	2,152	5,594	145	(7,891)	-
Total Revenue	33,830	43,243	11,288	(7,891)	80,470
Results					
EBITDA *	1,736	1,354	1,020	(1,902)	2,208
Depreciation and amortisation	(1,169)	(523)	(166)	-	(1,858)
Interest expense	(19)	(39)	(3)	(278)	(339)
Interest income	7	2	-	-	9
	555	794	851	(2,180)	20
Share of losses of associate	-	(30)	-	-	(30)
Profit (Loss) before tax	555	764	851	(2,180)	(10)
Tax credit	125	146	61	-	332
Profit for the year	680	910	912	(2,180)	322
Net profit margin	**2.1%**	**2.4%**	**8.2%**		**0.4%**
Assets and Liabilities					
Segment assets	30,837	39,456	4,369	3,001	77,663
Investment in associate	-	278	-	-	278
Segment liabilities	4,306	6,065	1,932	14,866	27,169
Other Segment Information					
Expenditures for non-current assets **	1,651	856	339	-	2,846
Other non-cash items:					
Bad trade receivables written off	44	-	-	-	44
Gain on disposal of					
- property, plant and equipment	(13)	(37)	(29)	-	(79)
- brooder stocks	(1)	-	-	-	(1)
Allowance for (Write back of allowance for)					
- doubtful trade receivables	64	109	5	-	178
- inventory obsolescence	-	(17)	-	-	(17)

(b) Geographical segments

Geographical segments are analysed by four principal geographical areas, namely Singapore, Asia, Europe and Others (i.e. the rest of the world).

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers which the sales are made to regardless of where the sales originate. Segment non-current assets and segment assets are based on the geographical location of the assets.

14 SEGMENT INFORMATION (cont'd)

(b) Geographical segments (cont'd)

	Revenue		Segment non-current assets		Segment assets	
	Financial year ended 31 Dec		Financial year ended 31 Dec		Financial year ended 31 Dec	
	2017	2016	2017	2016	2017	2016
Group	$'000	$'000	$'000	$'000	$'000	$'000
Singapore	24,508	23,565	27,101	23,651	54,207	53,633
Other Asian countries	48,787	41,328	5,863	4,785	27,427	23,752
Europe	8,291	8,649	-	278	-	278
Others	6,238	6,928	-	-	-	-
Total	87,824	80,470	32,964	28,714	81,634	77,663

(c) Major customers

There is no customers contributing more than 10 percent to the revenue of the Group.

15 BREAKDOWN OF REVENUE

Group	**Fish** $'000	**Accessories** $'000	**Plastics** $'000	**Total** $'000
4Q 2017				
Singapore (including domestic sales & sales to Singapore)	1,239	2,096	2,795	6,130
Overseas (including export to & sales in overseas)	7,470	8,362	80	15,912
Total revenue	8,709	10,458	2,875	22,042
4Q 2016				
Singapore	1,047	2,142	2,856	6,045
Overseas	6,927	9,073	67	16,067
Total revenue	7,974	11,215	2,923	22,112
Financial year ended 31 Dec 2017				
Singapore (including domestic sales & sales to Singapore)	4,692	8,497	11,319	24,508
Overseas (including export to & sales in overseas)	30,476	32,439	401	63,316
Total revenue	35,168	40,936	11,720	87,824
Financial year ended 31 Dec 2016				
Singapore	4,276	8,382	10,907	23,565
Overseas	27,402	29,267	236	56,905
Total revenue	31,678	37,649	11,143	80,470

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16 REVENUE AND PROFIT CONTRIBUTION BY QUARTER

	Group Financial year ended 31 Dec 2017	Group Financial year ended 31 Dec 2016	Increase (Decrease)
	$'000	$'000	%
Revenue			
1st Quarter	21,575	19,611	10.0
2nd Quarter	21,725	19,100	13.7
3rd Quarter	22,482	19,647	14.4
4th Quarter	22,042	22,112	(0.3)
	87,824	80,470	9.1
Profit (Loss) before tax			
1st Quarter	175	2	NM
2nd Quarter	63	23	173.9
3rd Quarter	331	93	255.9
4th Quarter	192	(128)	250.0
	761	(10)	NM
Profit attributable to owners of the Company			
1st Quarter	36	12	200.0
2nd Quarter	25	15	66.7
3rd Quarter	142	5	NM
4th Quarter	126	36	250.0
	329	68	383.8

NM: Not Meaningful

17 CONFIRMATION OF UNDERTAKINGS FROM DIRECTORS AND EXECUTIVE OFFICERS

The Company has procured undertakings from all its directors and executive officers under Rule 720(1) of the Listing Manual.

18 PERSONS OCCUPYING MANAGERIAL POSITIONS WHO ARE RELATED TO THE DIRECTORS, CHIEF EXECUTIVE OFFICER OR SUBSTANTIAL SHAREHOLDERS

Pursuant to Rule 704(13) of the Listing Manual of SGX-ST, we set out below the persons holding managerial positions in the Group who are related to the Directors, Chief Executive Officer or substantial shareholders of the Company or of any of its principal subsidiaries:

18 **PERSONS OCCUPYING MANAGERIAL POSITIONS WHO ARE RELATED TO THE DIRECTORS, CHIEF EXECUTIVE OFFICER OR SUBSTANTIAL SHAREHOLDERS (cont'd)**

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was held	Details of changes in duties and position held, if any, during the year
Tan Boon Kim	52	Brother-in-law of Alvin Yap Ah Seng and Andy Yap Ah Siong	Managing Director of - Thai Qian Hu Company Limited (since 2002) - P.T. Qian Hu Joe Aquatic Indonesia (since 2012) **Duties :** Oversees the business operations and business development of Thai Qian Hu Company Limited & P.T. Qian Hu Joe Aquatic Indonesia	No change
Yap Kim Choon	57	Substantial shareholder and brother of Kenny Yap Kim Lee	Division head of Wan Hu division (since 1988) **Duties :** Oversees the daily business operations of Wan Hu division	No change
Lee Kim Hwat	63	Brother-in-law of Kenny Yap Kim Lee	Managing Director of Qian Hu Tat Leng Plastic Pte Ltd (since 1996) **Duties :** Oversees and manages the daily operations and business development of Qian Hu Tat Leng Plastic Pte Ltd	No change

18 **PERSONS OCCUPYING MANAGERIAL POSITIONS WHO ARE RELATED TO THE DIRECTORS, CHIEF EXECUTIVE OFFICER OR SUBSTANTIAL SHAREHOLDERS (cont'd)**

Name	**Age**	**Family relationship with any director and/or substantial shareholder**	**Current position and duties, and the year the position was held**	**Details of changes in duties and position held, if any, during the year**
Yap Kok Cheng	39	Son of Yap Hock Huat	General Manager, China Operations (since 1 January 2016) **Duties :** Oversees and manages the overall business operations and business development in China	No change
Yap Kay Wee	39	Son of Yap Ping Heng	Head of Accessories Business, China Operations (since 1 January 2016) **Duties :** Oversees and manages the accessories business in China	No change
Lim Yik Kiang	41	Son-in-law of Yap Hock Huat	Head of Ornamental Fish Business, China Operations (since 1 January 2016) **Duties :** Oversees and manages the ornamental fish business in China	No change

Kenny Yap Kim Lee, Alvin Yap Ah Seng, Andy Yap Ah Siong, Yap Ping Heng, Yap Hock Huat, Yap Kim Choon and Yap Kim Chuan are the substantial shareholders of the Company.

Yap Ping Heng, Yap Hock Huat, Yap Kim Choon, Yap Kim Chuan and Kenny Yap Kim Lee (Executive Chairman and Managing Director) are brothers. They are cousins to Alvin Yap Ah Seng and Andy Yap Ah Siong, our Executive Directors. Alvin Yap Ah Seng and Andy Yap Ah Siong are brothers.

BY ORDER OF THE BOARD

Kenny Yap Kim Lee
Executive Chairman and Managing Director
12 January 2018

KPMG LLP
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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Qian Hu Corporation Limited (the 'Company') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group, and the statement of profit or loss, statement of comprehensive income and statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages FS1 to FS69.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position, statement of profit or loss, statement of comprehensive income and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 ('the Act') and Financial Reporting Standards in Singapore ('FRSs') so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group, and the financial performance and changes in equity of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ('SSAs'). Our responsibilities under those standards are further described in the '*Auditors' responsibilities for the audit of the financial statements*' section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ('ACRA Code') together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

<table>
<tr><td colspan="2">Valuation of biological assets ($9.4 million)
Refer to Note 6 to the financial statements</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group holds a significant amount of biological assets in the form of brooder stock of dragon fish. Brooder stock is carried at cost less accumulated depreciation and impairment.

Prevailing oversupply of dragon fish has exerted downward pressure on the selling prices of dragon fish. This presents a risk that the brooder stock balance may not be recoverable, resulting in losses.

Management performed an annual impairment review on brooder stock, which involves significant judgement in estimating future cash flows. Due to the level of judgement involved, this is one of the key areas that our audit focused on.</td><td>We considered the appropriateness of the valuation methodology and tested the information used by management.

The key assumptions underlying the projected cash flows (including production yield and budgeted revenue growth) are challenged by comparing against historical information of the Group and consideration of other external and internal factors. Our valuation specialists are engaged to assess the reasonableness of the discount rate used.

We tested the mathematical accuracy of the discounted cash flow model and evaluated the sensitivity of the outcomes by considering downside scenarios against reasonably plausible changes to the key assumptions.

In addition, we evaluated the appropriateness of the relevant disclosure in relation to the valuation of biological assets.</td></tr>
<tr><td colspan="2">Our findings

The key assumptions underlying the projected cash flows are comparable to the historical information of the Group.

The Group's impairment review is sensitive to changes in all the key assumptions used. Based on the Group's sensitivity analysis, a reasonable possible change in a single factor could result in impairment of biological assets as their recoverable amounts currently only marginally exceed their carrying value.

We found that the disclosure appropriately describes the inherent degree of judgement involved.</td></tr>
</table>

KPMG

<table>
<tr><td colspan="2">Valuation of trade and other receivables ($30.9 million)
Refer to Note 10 to the financial statements</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group has significant and long outstanding receivables from Guangzhou Qian Hu Aquarium and Pets Accessories Manufacturing Co., Ltd (GZQH) and the purchasers of Kim Kang Aquaculture Sdn. Bhd (KKSB) amounting to $11.3 million, representing 37% of total trade and other receivables. GZQH and KKSB are former subsidiaries of the Group. No allowance for doubtful debts was made for these balances as of the reporting date.

The assessment of collectability of long outstanding receivables involves significant judgement of the debtors' ability to pay and the credit worthiness of their guarantors.</td><td>We assessed the recoverability of the amounts owing by GZQH and the purchasers of KKSB with reference to payment track records and the guarantors, on-going business relationship with the debtors and the repayment plans agreed with the debtors.

In addition, we reviewed the sufficiency of the disclosures in relation to the significant and long outstanding receivables.</td></tr>
<tr><td colspan="2">Our findings

We found management's assessment of the recoverability of trade and other receivables, which premised on the financial strength of the guarantors and repayment plans to be reasonable and the disclosures to be appropriate.</td></tr>
</table>

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Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained the Directors' Statement prior to the date of this auditors' report. The other information except for the Directors' Statement in the Annual Report ("the Reports") are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

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Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit 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 Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

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We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Yeo Lik Khim.

KPMG LLP

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
12 January 2018