



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

Minutes of the Seventh Annual General Meeting of the Company held at No. 71 Jalan Lekar, Singapore 698950 on Friday, 10 March 2006 at 11.00 a.m.

Present

Board of Directors/Secretaries

1. Mr Kenny Yap Kim Lee
 - (i) Executive Chairman & Managing Director
 - (ii) Shareholder
 - (iii) Proxy for:
 - DBS Nominees Pte Ltd
 - HSBC Singapore Nominees Pte Ltd
 - Yap Hock Huat
 - Yap Kim Choon
 - Yap Kim Chuan
 - Yap Ping Heng
2. Mr Alvin Yap Ah Seng (Director)
Shareholder
3. Mr Andy Yap Ah Siong (Director)
Shareholder
4. Ms Lai Chin Yee (Director/Company Secretary)
Shareholder
5. Mr Robson Lee Teck Leng (Director)
Shareholder
6. Mr Chang Weng Leong (Director)
Shareholder
7. Mr Tan Tow Ee (Director)
Shareholder
8. Ms Sharon Yeoh (Company Secretary)
M & C Services Private Limited

In Attendance

1. Mr Max Loh Khum Whai
Ernst & Young
2. Ms May Yo Yee
Ernst & Young
3. Ms Amelia Wong
M & C Services Private Limited
4. Ms Marcus Goh
M & C Services Private Limited
5. Ms Sam Mei Ling
M & C Services Private Limited

Shareholders

1. Ms Leh Bee Hoe
2. Mr Chong Aik Boo
3. Mr Tan See Wah
4. Mr Leong Seng Kei
5. Mr Tan Tok Jin
6. Mr Yeo Heng Kit
7. Mr Ee Guan Soon
8. Mr Chiam Hock Poh
9. Mr Vijeyacone Ariyacone
10. Mr Ng Eng Seng
11. Mr Tan Siew Huat
12. Mr Cheng Yow Hui
13. Ms Yap Saw Chin

Proxies

14. Mr Chiam Heng Hsia
Proxy for Mr Ng Ah Leck
15. Ms Lo Weng Fook
Proxy for Mr Koh Say Teng

Observers

16. Mr So Seong Meng
17. Ms Philomena Li
18. Mr Chan Wai Chee
19. Mr Chiam Ah Kee

The Chairman of the Board of Directors, Mr Kenny Yap Kim Lee chaired the Annual General Meeting (“AGM”). Having noted that a quorum was present, the meeting was called to order.

Chairman thanked the shareholders and all those present for their attendance. With the permission of the meeting, the notice convening the meeting was taken as read.

ORDINARY BUSINESS

1. Adoption of Reports and Financial Statements

On the request of the Chairman, the following Ordinary Resolution No. 1 was duly proposed by Mr Tan Tok Jin and seconded by Mr Leong Seng Kei:-

“Resolved that the Audited Accounts for the financial year ended 31 December 2005 and the Reports of the Directors and Auditors thereon be hereby received and adopted.”

Chairman invited questions from the shareholders on the Reports and Financial Statements for the financial year ended 31 December 2005.

A shareholder present, Mr Tan Tok Jin, noted that the 2005 Annual Report (“Annual Report”) provided very detailed write-up and disclosed a substantial amount of business information of the Group and enquired whether Qian Hu would be concerned that its competitors might follow its business model.

Chairman informed the meeting that the Company had recently been presented with the Best Annual Report Award (companies with market capitalization of below \$500 million category) for its 2004 Annual Report and the Best Investor Relations Award (companies with market capitalization of below \$500 million category) at the inaugural Singapore Corporate Awards.

Chairman further commented that Qian Hu had been forthcoming and had adopted a practice of full disclosure. It had always tried to be as comprehensive as it could in the preparation of annual reports but definitely not at the expense of disclosing its trade secrets. He said that whether other public listed companies would want to follow Qian Hu’s approach would be entirely up to them. He added that it would definitely be beneficial to the investors if companies choose to disclose more information.

Mr Tan Tok Jin made reference to the Group’s turnover on page 26 of the Annual Report. He noted that the turnover of the Group for FY 2003 to FY 2005 was approximately \$65.5 million to \$67.7 million, but the profit recorded by the Group for these three years fluctuated significantly and enquired the reasons and significance of such profit reduction.

Chairman explained that the Group was in the process of professionalizing a highly fragmented ornamental fish and aquarium & pets accessories retail market by setting up retail chain stores throughout the region in the past two years. In this transformation process, the Group’s results were affected by pre-operational expenses and initial operating losses incurred by these retail chain stores. In addition, bank loans were obtained to finance the setting up of these retail chain stores as well as for the expansion of its Guangzhou factory facilities, which had resulted in the increase in finance expenses. In FY 2005, the Group’s conscientious effort made to reduce its inventory level (through market promotions) had also affected the profitability of its accessories business. Accordingly, although the Group’s turnover remained relatively consistent over the past three years, its profitability was not comparable.

Mr Tan Tok Jin further asked whether there was a system of control in place over cash collections in the Group's retail chain stores located overseas.

Chairman replied that the Group set up the retail chain stores only in countries where the Group's subsidiaries were located. All companies would have control systems in place, such as daily banking in of cash proceeds, weekly inventory checks, closed-circuit television ("CCTV") cameras monitoring, etc, to ensure that there would be no pilferage. He assured that the Group does have a proper set of checks and balances in place for all its retail operations.

Mr Tan Tok Jin noted that the Group did well from the sale of its Dragon Fish and asked if there would be an over reliance on the sales of Dragon Fish going forward.

Chairman clarified that Qian Hu's business did not solely rely on Dragon Fish sales although the contributions from Dragon Fish sales had been significant in FY 2005. He explained that although over the years, Qian Hu had amassed substantial experience and expertise in the breeding and sales of Dragon fish, the Group would continue to strengthen its other pillars of growth by exporting ornamental fish to more customers and more countries over the world; enhancing its efficiency in the manufacturing of accessories products and expanding its distribution network by setting up more retail chain stores.

Mr Tan Tok Jin requested for more information on the leasehold land additions in Thailand as noted on page 92 of the Annual Report and whether the renewal of the lease term upon its expiry in Year 2008 would be an issue.

Chairman explained that the land located in Bangkok, Thailand (as disclosed on page 92 of the Annual Report) was owned by the Government of Thailand and the lease term would be subject to review every three years. Although the Group had set up its infrastructure there, there should not be any concern that the Thai Government would not renew the lease as the Thailand subsidiary, which deals mainly in the export of ornamental fish to overseas customers, could be easily relocated to any other location. He emphasized that what was more important was the identification of a stable supply chain and the existence of a network of overseas customers interested in purchasing ornamental fish from the Thailand subsidiary.

Mr Tan Tok Jin enquired about the sizeable investment in Kim Kang Aquaculture Sdn Bhd ("Kim Kang") and whether Kim Kang's performance was up to expectation.

Chairman referred to the various announcements made to the SGX-ST in FY 2004 and FY 2005 on the issuance of new ordinary shares and payout made to the vendors of Kim Kang as they had fulfilled their undertaking to the Group to procure certain profit contributions from Kim Kang to the Group's consolidated results, which was in accordance with the terms and conditions as stipulated in the Sales and Purchase Agreement dated 20 January 2003 in relation to the acquisition of Kim Kang. Chairman was of the opinion that the acquisition was a worthwhile investment and that it had since brought enormous value to the Group.

Mr Robson Lee, Chairman of the Audit Committee, added that since Kim Kang had achieved the profit target set for each year, the Company had, altogether in FY 2004 and FY 2005, allotted and issued a total of 4,000,947 new ordinary shares at an issue price of \$0.96 per share and together with the payment of a cash consideration of approximately \$3.84 million to the vendors, completed its obligation in fulfilling the payment of the full consideration for the acquisition of Kim Kang.

On Mr Tan Tok Jin's query on the reason for the allowance made on the amount due from associates of \$364K as noted on page 106 of the Annual Report. Chairman replied that the amount was related to one of the associates which the Group disposed of in July 2005 – PLC Pet Safari (Kuala Lumpur) Sdn Bhd, a joint venture with The Pet Safari Pte

Ltd (“Pet Safari”). As Pet Safari was engaged in the business activities of running retail pet stores, Qian Hu’s management felt that there was a difference in business model concept between Qian Hu and Pet Safari as the Group had started to develop its own retail chain stores in the region. As such, there might be a conflict of interest if the Group continued its joint venture with Pet Safari. Accordingly, the Group had made a commercial decision to divest from this associate and write-off its investment and its share of losses in the associate.

Mr Tan Tok Jin referred to page 113 of the Annual Report with regard to “Compensation of key management personnel” under Note 30(b). He sought clarification on the nature of the compensation.

Ms Lai Chin Yee, the Finance Director and Mr Robson Lee explained that this amount was remuneration paid to key management personnel as determined by the Remuneration Committee having regard to the performance of each individual and market trend. The amount stated in the Annual Report comprised the annual remuneration package, which was inclusive of salary, central provident fund contributions, allowances and bonuses paid to the key management personnel of the Group.

Another shareholder, Mr Tan Siew Huat, referred to page 32 of the Annual Report and would like to know why the rental of premises had increased by 56.1% from \$694K in FY 2004 to \$1.08 million in FY 2005.

Chairman explained that the opening of more overseas retail chain stores in Malaysia, Thailand and China had resulted in the surge in rental expenses in FY 2005.

Mr Tan Tok Jin enquired the Company’s Section 44 tax credit balance. Ms Lai Chin Yee responded that after the payment of the first and final dividend declared for FY 2005, the balance would be approximately \$2.2 million. On Mr Tan Tok Jin’s further query on whether the Company would be able to completely utilize its Section 44 balance prior to the deadline of transferring to the one-tier tax system (i.e. by 31 December 2007), Chairman explained that the Board had always tried to strike a balance. As the Group is still growing its operations, cash is needed for its expansion. On the other hand, the Company would like to reward its supportive shareholders. Therefore, it has not set a concrete dividend policy at present. The recommended dividend took into consideration the Group’s profit growth, cash position, positive cash flow generated from operations and the projected capital requirements for business expansion. Hence, the utilization of tax credits would not be the Group’s priority. He emphasized that the Group’s priority would be to transform and grow its business on a long term basis.

Mr Robson Lee, added that the independent directors of the Company were aware and mindful of the minority shareholders’ interest. Whenever possible, the independent directors would be in close communication with the management on its corporate governance practices and its financial and internal controls matters. He agreed with the Chairman that paying dividend every year for the purpose of utilizing tax credits would be a short term approach. The Board’s long term approach would be to manage its cash flow and to identify good investments that would yield good returns for the Group. He assured the shareholders that the Audit Committee was fully aware of its onerous duties and it would be accountable to the shareholders for their investments in the Company.

Mr Tan Siew Huat referred to page 73 of the Annual Report and requested for the component in “Other payables and accruals”. Ms Lai Chin Yee explained that the balance mentioned included accrued freight charges, year-end bonus provision and other liabilities not paid as at 31 December 2005.

As there were no further questions, Ordinary Resolution No. 1 was put to a vote. As there was no vote against, Chairman declared Ordinary Resolution No. 1 carried.

2. Declaration of First and Final Dividend

Chairman requested shareholders to formally propose and second Ordinary Resolution No. 2:-

“Resolved that a first and final dividend of 0.5 cents per ordinary share less 20% Singapore income tax for the financial year ended 31 December 2005 be paid on 3 April 2006 to members registered in the books of the Company on 21 March 2006.”

On the proposal of Mr Tan Tok Jin and seconded by Mr Leong Seng Kei, Ordinary Resolution No. 2 was put to a vote. As there was no vote against, Chairman declared Ordinary Resolution No. 2 carried.

3. Re-election of Director

Chairman informed the meeting that Mr Tan Tow Ee, one of the independent directors and Chairman himself, were to retire pursuant to Article 89 of the Company’s Articles of Association. Both directors had consented to offer themselves for re-election.

The meeting was further informed that amendments to the Company’s Articles of Association were approved at an Extraordinary General Meeting held in March 2005 to take into consideration the requirements of the Code of Corporate Governance (“Code”) and changes to the Companies Act and the Listing Manual. In accordance with the Code, Article 89 was amended to require all directors, including a person holding the office of managing director, to retire by rotation. The meeting voted on the re-election one at a time.

On Chairman’s own re-election as director, the Chairmanship of the meeting was passed to Ms Lai Chin Yee, the Finance Director. The meeting had no objection to the arrangement. Ms Lai Chin Yee invited questions from shareholders. As there were no questions, she requested shareholders to formally propose and second Ordinary Resolution No. 3: -

“Resolved that Mr Kenny Yap Kim Lee who retired pursuant to Article 89 of the Company’s Articles of Association, being eligible and offering himself for re-election be and is hereby re-elected as Director of the Company.”

On the proposal of Mr Tan Tok Jin and seconded by Mr Tan Siew Huat, Ordinary Resolution No. 3 was put to a vote. Mr Kenny Yap Kim Lee abstained from voting. However, he voted as proxy in accordance with the instructions on the proxy forms that appointed him as proxy. As there was no vote against, Ms Lai Chin Yee declared Ordinary Resolution No. 3 carried.

With no objection from the shareholders, the Chairmanship of the meeting was passed back to the Chairman.

4. Re-election of Director

Chairman introduced Mr Tan Tow Ee and invited questions from shareholders. As there were no questions asked, Chairman requested shareholders to formally propose and second Ordinary Resolution No. 4: -

“Resolved that Mr Tan Tow Ee who retired pursuant to Article 89 of the Company’s Articles of Association, being eligible and offering himself for re-election be and is hereby re-elected as Director of the Company.”

On the proposal of Mr Chiam Hock Poh and seconded by Mr Tan Tok Jin, Ordinary Resolution No. 4 was put to a vote. Mr Tan Tow Ee abstained from voting. As there was no vote against, Chairman declared Ordinary Resolution No. 4 carried.

It was noted that Mr Tan Tow Ee was considered an independent director, and would remain a member and Chairman of the Nominating Committee and member of the Audit and Remuneration Committees.

5. Approval of Directors' Fees

Chairman informed the meeting that each independent director would receive \$10,000/- as director's fee for services rendered in FY 2005. He commented that the Company's independent directors, who had been contributing positively to the different aspects of the Group, had not been paid the going market rate. In recognition of their contributions and in view of their onerous duties as independent directors, he informed the meeting that the independent directors' fees would be increased to \$12,000/- per annum with effect from the FY 2006.

Mr Tan Tok Jin asked whether the Board would consider appointing additional independent directors to the Board. Chairman said that it would be unlikely as the Board had considered the size of the board suitable for its current operations. Mr Tan Siew Huat commented that so long as the Group continues to increase its profits, the shareholders would not oppose the proposed increment in directors' fees.

As there were no further questions, Chairman requested shareholders to formally propose and second Ordinary Resolution No. 5:-

“Resolved that the payment of Directors' fees of \$30,000/- for the financial year ended 31 December 2005 be and is hereby approved.”

On the proposal of Mr Tan Tok Jin and seconded by Ms Yap Saw Chin, Ordinary Resolution No. 5 was put to a vote. Mr Robson Lee, Mr Chang Weng Leong and Mr Tan Tow Ee abstained from voting. As there was no vote against, Chairman declared Ordinary Resolution No. 5 carried.

6. Re-appointment of Auditors

Chairman invited questions from shareholders. As there were no questions, he requested shareholders to formally propose and second Ordinary Resolution No. 6: -

“Resolved that Ernst & Young be and are hereby re-appointed Auditors of the Company at a fee to be fixed by the Directors.”

On the proposal of Mr Chiam Heng Hsia, proxy for shareholder Mr Ng Ah Leck and seconded by Ms Yap Saw Chin, Ordinary Resolution No. 6 was put to a vote. As there was no vote against, Chairman declared Ordinary Resolution No. 6 carried.

7. Any Other Business

As there was no other business, Chairman proceeded to the Special Business of the meeting.

SPECIAL BUSINESS

Ordinary Resolution

8. General Mandate to Authorise the Directors to Issue Shares or Convertible Securities

Duly proposed and seconded by Mr Tan Tok Jin and Ms Yap Saw Chin respectively, the following Ordinary Resolution No. 7 was put to a vote and passed:-

“THAT pursuant to Section 161 of the Companies Act, Cap. 50 and the listing rules of the Singapore Exchange Securities Trading Limited (the “Listing Rules”), authority be and is hereby given to the Directors of the Company to allot and issue: -

- (a) shares; or
- (b) convertible securities; or
- (c) additional securities issued pursuant to Rule 829 of the Listing Rules; or
- (d) shares arising from the conversion of securities in (b) and (c) above,

in the Company (whether by way of rights, bonus or otherwise) at any time to such persons and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that: (i) the aggregate number of shares and convertible securities to be issued pursuant to this resolution must be not more than 50% of the issued share capital of the Company (calculated in accordance with (ii) below), of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders must be not more than 20% of the issued share capital of the Company (calculated in accordance with (ii) below); and (ii) for the purpose of determining the number of shares and convertible securities that may be issued pursuant to (i) above, the percentage of issued share capital shall be calculated based on the Company’s issued share capital at the time of the passing of this resolution after adjusting for (a) new shares arising from the conversion or exercise of convertible securities; (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this resolution and (c) any subsequent consolidation or subdivision of shares. Unless revoked or varied by ordinary resolution of the shareholders of the Company in general meeting, this resolution shall remain in force until the earlier of the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the company is required by law to be held, whichever is earlier.”

There being no further business, the meeting ended at 11.50 a.m. Chairman thanked the support of all the shareholders of Qian Hu.

CONFIRMED AS A CORRECT RECORD OF THE PROCEEDINGS OF THE MEETING



KENNY YAP KIM LEE
CHAIRMAN