



Against the Current

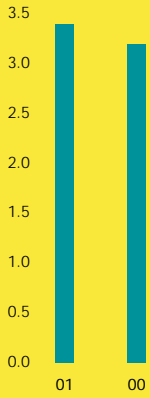
Qian Hu Corporation Limited
Annual Report 2001

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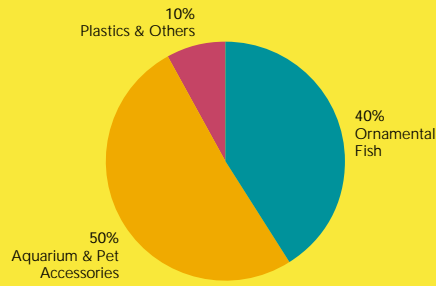
Financial Highlights

Profit After Tax (S\$million)

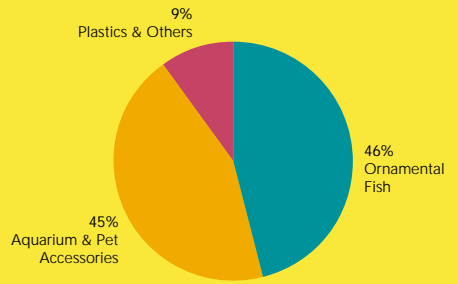


2001

Profit After Tax by Activities

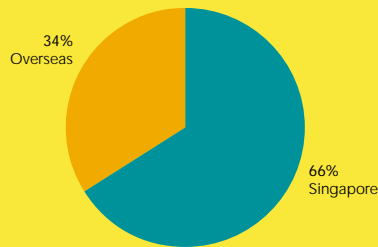


2000

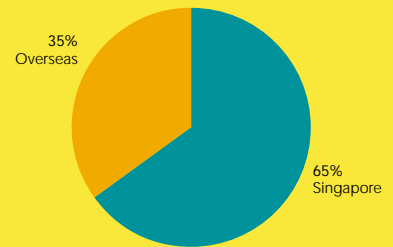


2001

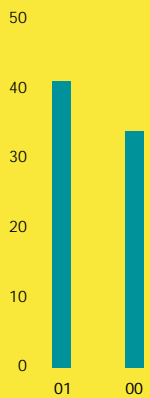
Profit After Tax by Geographical Regions



2000

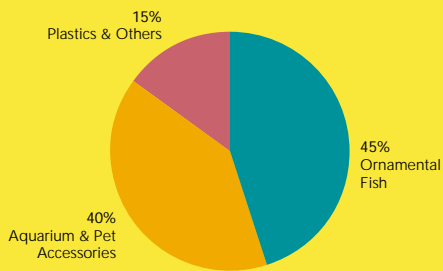


Turnover (S\$million)

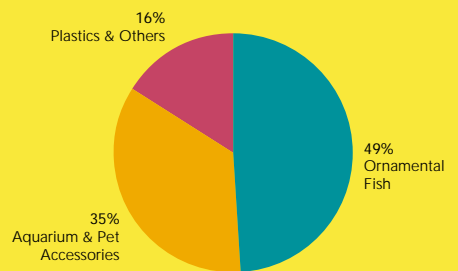


2001

Turnover by Activities

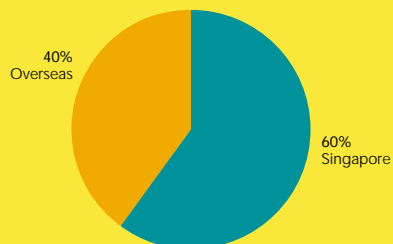


2000



2001

Turnover by Geographical Regions



2000



Value-Added Statement

	2001 \$'000	2000 \$'000
Revenue earned	41,249	33,903
less: Purchase of goods	(30,608)	(24,754)
Gross Value-Added	10,641	9,149
Other operating income	639	495
Exchange gain	189	94
Share of (loss) profit of associated companies	(7)	8
Total Value-Added	11,462	9,746
Distribution:		
To employees in salaries and other related costs	5,643	4,422
To government in corporate and other taxes	981	1,042
To providers of capital:		
– Interest paid on borrowings from bank (net)	72	158
Retained for re-investment and future growth		
– Depreciation and amortisation	1,176	939
– Unappropriated profit	3,558	3,104
– Minority interests	(48)	(18)
Non-production cost:		
– Bad debts and provision of doubtful debts (net)	80	99
Total distribution	11,462	9,746

Productivity Analysis

	2001	2000
Number of employee	218	166
Value-added per employee (\$'000)	53	59
Value-added per \$ of employment costs	2.03	2.20
Value-added per \$ sales	0.28	0.29
Value-added per \$ of investment in fixed assets	1.04	1.05

Agrarian in nature no doubt, our business requires commitment and knowledge, accumulated over years of experience. It is this passion for the business that contributed to the many awards and trophies that Qian Hu has amassed. This year, Qian Hu bagged numerous awards at Aquarama 2001, maintaining a track record of excellence and innovation that is unique to Qian Hu.

It is also this spirit of excellence and commitment that has pervaded all of Qian Hu's operations. Today, Qian Hu is positioned as a fully-integrated breeder, farmer and exporter of ornamental fish to all parts of the globe, playing a key role in establishing Singapore as a major exporter of ornamental fish in the world, and supplying more than 30% of the world's aquarium fish.



Our Mission Statement

We want to create shareholders' value by becoming a world-class ornamental fish and accessories company through innovative and quality products and services.

Dear Shareholders

Today, I have the pleasure of taking a moment from my coffee break to write you this letter – an update on what has been happening in Qian Hu during our financial year 2001, which ended on 31 December.

Despite the pall over the whole world as a result of the worsening global economy, exacerbated by the events in the US and Afghanistan, Qian Hu Corporation Limited managed to swim against the current of recession and emerged stronger, fitter.



Our Group turnover surged nearly 22% to \$41.3 million, while net profit attributable to shareholders grew by 8.4% to \$3.4 million.

All of our core business activities experienced growth, fuelled by our expansion into Thailand, Malaysia, and China, as well as a much bigger customer base overseas. Turnover from our mainstay ornamental fish segment grew by 11.2% (\$1.8 million) due to brisk activities from the local retail market, particularly our highly-prized Dragon Fish.

Our accessories business did well too, with sales of \$16.6 million, which registered a growth of 38.9% over the year-ago period. Half of these were contributed by our Malaysian and Thai subsidiaries, and an enlarged overseas customer base.

Revenue from plastics and other businesses increased by 15.5% to \$6.3 million, largely due to the expansion of our local distribution channels through direct supplies to end-users. We had also begun manufacturing and distributing higher-end plastic bags for the electronics and food industries.

We are gratified that our business has been relatively unscathed from world events around us as the tropical fish business is literally in a world of its own. Not many people realise that our business is very different from many other companies. The ornamental fish

and pet accessories business is not subject to the cycles of the economy. On the contrary, we observed that during a recession, people would not throw away their fish tanks, nor starve their pets of food. Instead, those who do not have pets are more likely to take on one during hard times. After all, one has to do something to distract oneself from depressing realities.

During the first half of the year in review, we reported a 10.3% dip in net earnings in spite of a 16.7% jump in turnover to \$19.9 million. This was mainly due to depreciation and start-up costs of our subsidiaries in China and Thailand, and lower gross profit margins of our accessories business. We had also charged the cost of restructuring Qian Hu Marketing Co Ltd in Thailand during this period.

In the third quarter of the year, we experienced negligible impact from the events after September 11. Demand for our products was not affected although we faced some difficulty in getting our fish on board flights as the air travel industry was in chaos.

In the fourth quarter, however, when more flights resumed, we experienced a surge in deliveries as well as increased local demand due to the holiday season. This proved the point that Qian Hu is indeed operating in a very resilient industry, unperturbed by economic turmoil.

Therefore, I am pleased to announce a first and final dividend of 6% gross per share, which if approved, will be paid to shareholders on 10 May 2002.

To thank all of you for your support of Qian Hu, we have distributed a one-for-10 bonus issue of shares which rank *pari passu* in all respects with the existing shares in the capital of the Company except that they will not be entitled to any dividend declared in respect of FY2001.

I am sure all of you are wondering what sort of plans we have for the current financial year. We expect the bulk of our growth this year, and in the next few years, to come from our overseas operations, including our newly-formed subsidiary in Thailand, Thai Qian Hu, and our new fish division in Guan Guan (Malaysia). We also intend to set up a joint venture to distribute pet food in Taiwan soon.

We intend to increase our investment in a Guangzhou-based associate company, Wan Jiang, from 50% to 60%, thus making it a subsidiary company of the Group. As such we will be able to recognize Wan Jiang's turnover, which we expect to increase in FY2002, and raise our share of the profits in the Group's consolidated financial performance.

In FY2002, we expect positive contributions from our Group's overseas subsidiaries as we do not expect to carry further restructuring

and start-up costs. We envisage our Group's turnover will continue to increase in the current financial year.

This year, Qian Hu was voted one of the most transparent companies in the Sesdaq/Small Caps (up to \$100 million) category by the Singapore Investors Association of Singapore, in recognition of our commitment to corporate governance and transparency to our shareholders. Qian Hu had also made to the honour roll by topping The Business Times' Corporate Transparency Index for companies with December 2001 year-end.

We are also proud to report that our ornamental fish varieties took the limelight at the Aquarama 2001 show. Our Dragon Fish won first prize in the "Red" and "New Species/Varieties (Wild-Caught)" categories, while our Goldfish Orandas took the second spot. We also won third prize for "Goldfish Ryukin" and "New Species/Varieties (Bred-in-Captivity)" categories.

Echoing our mission statement, let me assure you that Qian Hu's number one goal is to create shareholders' value by becoming a world-class ornamental fish and accessories company. We are confident that we will attain our vision by focusing on the spirit of innovation and by delivering quality products and services.

I am grateful for the commitment and dedication of my colleagues at Qian Hu, and the support that our customers, suppliers, business associates and fellow directors have given. Our attainment of the Singapore Quality Circle in May 2001 is only scratching the surface of where we hope to be one day. To be truly world-class, we have to take our spirit of commitment, camaraderie and teamwork to higher levels.

Thank you all.

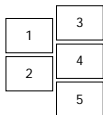
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Kenny Yap
Executive Chairman &
Managing Director

Board of Directors



1. Kenny Yap Kim Lee
Executive Chairman and
Managing Director
2. Alvin Yap Ah Seng
Deputy Managing Director
3. Andy Yap Ah Siong
Deputy Managing Director
4. Robson Lee Teck Leng
Independent Director
5. Chang Weng Leong
Independent Director



Corporate Information

Board of Directors

Kenny Yap Kim Lee
(Executive Chairman and
Managing Director)
Alvin Yap Ah Seng
Andy Yap Ah Siong
Robson Lee Teck Leng
Chang Weng Leong

Company Secretary

Lai Chin Yee

Audit Committee

Robson Lee Teck Leng (Chairman)
Chang Weng Leong
Kenny Yap Kim Lee

Registered Office

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Singapore 698950

Share Registrar

M & C Services Private Limited
138 Robinson Road
#17-00 The Corporate Office
Singapore 068906

Auditors

Arthur Andersen
10 Hoe Chiang Road
#18-00 Keppel Towers
Singapore 089315

Partner-in-Charge
Steven Phan Swee Kim

Principal Bankers

The Development Bank
of Singapore Ltd
6 Shenton Way
DBS Building
Singapore 068809

Overseas-Chinese Banking
Corporation Limited
65 Chulia Street
OCBC Centre
Singapore 049513

Group Structure

Qian Hu Corporation Limited	Subsidiaries	Associates
<p>Qian Hu Fish Farm Trading Yi Hu Fish Farm Trading Wan Hu Fish Farm Trading Daudo Aquarium</p>	<p>100% Tat Leng Plastic Pte Ltd (Singapore)</p> <p>100% Guan Guan Aquarium Sdn Bhd (Malaysia)</p> <p>100% Beijing Qian Yang Aquarium Co Ltd (China)</p> <p>100% Fujian Anxi Qian Long Plastics Private Co Ltd (China)</p> <p>74% Qian Hu Marketing Co Ltd (Thailand)</p> <p>70% Thai Qian Hu Company Limited (Thailand)</p> <p>49% *NNTL (Thailand) Limited (Thailand)</p> <p><small>*The Group has voting control at general meetings and Board meetings</small></p>	<p>50% Guangzhou Wan Jiang Technology Co Ltd (China)</p> <p>25% Fujian Anxi Ji Ying Handicraft Article Co Ltd (China)</p>

Year in Review

Qian Hu is the only fish farm in Singapore that provides a one-stop, integrated business, supplying not only ornamental fish, aquarium accessories, pet food and medicines, but also breeding Dragon Fish for both local and overseas customers.

In being a total-solutions and quality-service provider, we are engaged in the total ornamental fish process which includes import, export, breeding, quarantine, farming, wholesale, distribution, and the manufacture of aquarium accessories.



FY2001 was a good year for us, in spite of the global economic downturn, which was exacerbated by the 9/11 terror events that shook the world with fear and trepidation. All of our business segments – ornamental fish, accessories, plastics and other business – registered revenue growth, which led to a 21.7% increase in Group turnover from \$33.9 million in the year-ago period to \$41.2 million in the year ended 31 December 2001.

Ornamental fish and distribution of accessories remain the core activities of the Group, accounting for 84.8% of our total revenue. Singapore continues to be our main market, accounting for nearly 60% of turnover. Singapore sales grew by 19% as a result of improved sales to local fish retailers and the opening of our in-house retail outlets.

Overseas sales, which account for the remaining 40%, grew by 26% compared to the same period last year, mainly due to our continual efforts to expand our operations in untapped regional markets.

Ornamental Fish

Sales of ornamental fish grew by 11.2% to \$18.3 million, due mainly to increased sales in the highly-prized Dragon Fish as well as our efforts in focusing on sales to local retailers. Our in-house retail outlet, set up in August 2000, had also contributed to the increased activities.

In spite of higher sales revenue from this business segment, operating profit from our ornamental fish business registered flat growth due to a decrease in gross profit margin from certain fish species during the fourth quarter of FY2001. We managed to contain this erosion of profit by focusing more on local retailers as well as our in-house retail outlet which commands higher margins.

In the current year, we expect our overseas operations such as our newly-formed subsidiary in Thailand, Thai Qian Hu, and our new fish division, Guan Guan (Malaysia), to increase the growth momentum in our Group, while we continue to grow organically in Singapore.

Aquarium and Pet Accessories

Sales of accessories grew by 38.9% to \$16.6 million, nearly half of which were contributed by our subsidiaries in Malaysia and Thailand. Continuous expansion of the Group's overseas customer base, particularly in the fourth quarter of the year, had also made some gain in sales activity in the region.

As part of the expansion of our manufacturing capabilities for aquarium and pet accessories, we established a Guangzhou-based joint venture company with a Taiwanese partner in FY2001 to produce our own house brands of accessories as well as other third party brands. The joint venture company, Wan Jiang Technology Co Ltd, supplies accessories to our regional network which we intend to expand further afield to countries like Japan, Germany, United Kingdom and the rest of the world.

We intend to increase our investment in Wan Jiang from 50% to 60%, thus making it a subsidiary company of the Group. As such we will be able to recognize Wan Jiang's turnover, which we expect to increase in FY2002, and raise our share of the profits in the Group's consolidated financial performance.

We are pleased that the restructuring of our subsidiary in Thailand, Qian Hu Marketing, has been completed in April 2001. In the first half of the year, we had to absorb the restructuring costs which contributed to the losses reported for the first six months. However, we managed to be operationally profitable at the close of the year.



Plastics and Others

Revenue from plastics and other business increased by 15.5% to \$6.3 million.

We managed to penetrate deeper into the local market by expanding our distribution channels supplying directly to end-users as well as selling higher-end plastics bags. In addition, one of our subsidiaries in PRC, which commenced its operations in September 2000, has contributed to the turnover of plastic bags in FY 2001.

Despite the increase in turnover, our plastics and other business recorded a slight dip in profitability. This was a result of the increasing operating costs experienced in the second half of FY 2001 after shifting to our new factory, coupled with losses made by one of our subsidiaries in PRC, which commenced its operations in September 2000.



Working Together

Over the years, Qian Hu has grown from strength to strength. From its humble beginnings as a family business in an agrarian industry, Qian Hu has become a public-listed company that is professionally-managed and knowledge-based. What sets Qian Hu apart, however, is the strong cord of teamwork, camaraderie and commitment that is uniquely our culture. We work together, and respect each individual's contribution to the success of the Company.

In our 2001 annual staff survey, 98.5% of them who responded expressed that they were very happy with the Company. This is yet another testimony that Qian Hu is indeed a happy environment to work in.







Doing Our Part

At Qian Hu, we are keenly aware of our responsibility towards our physical and social environments. Since 1997, we have had an integrated, ISO 14000-certified programme in place to minimise the stress that our operations may have on the environment.

As part of our efforts to promote the ornamental fish industry, we invested \$200,000 in a community project to bring back the simple delights of “kampung days” such as catching “longkang” fish right at our own backyard. Named the “Qian Hu Agro-Education Centre”, this activity centre, reminiscent of our old farm in Nee Soon complete with poultry, fruit trees and garden spices, hopes to give our younger, city-dwelling Singaporeans a taste of how “kampung” children used to have fun, the old-fashioned way.

As one of the few truly agricultural landmarks in Singapore, Qian Hu Fish Farm has been recognised by the Singapore Tourism Board as an agro-tourism destination.

As we strongly believe that every life has to be cherished, especially the needy and underprivileged, our staff have continued to participate actively in a number of fund-raising activities for various societies, clubs, community clubs and charities.



The Qian Hu Story

Qian Hu's history can be traced back to the early days of the Company's pioneers, two brothers who were in the pig farming business – Mr Yap Tik Huay, the father of the Group's Executive Chairman Kenny Yap, and his brother Yap Hey Cha.

In 1985, their pig farm was eradicated due to the Government's move to stem pollution and free up more land for residential development. At that point in time, Tik Huay's three sons, Yap Peng Heng, Yap Hock Huat and Yap Kim Choon joined the family business. They converted the old pig pens into concrete ponds and started breeding guppies for the local fish exporters. However, in 1989, during a heavy thunderstorm, their entire stock of guppies was washed away.

Having to start all over again, and with a new name "Qian Hu" – which means a thousand lakes in Chinese, Kenny and two of his cousins, Alvin and Andy, were more than ever

determined to put their collective efforts towards rebuilding Qian Hu.

Little did they realise, however, that they were in for another set back. After their failure in rearing guppies, they went on to farm high-fin loaches despite knowing very little about this particular variety of fish. In one fell swoop, their entire stock of 4,000 loaches died. They lost almost everything, except for their resolve, mettle and drive to succeed. Since then, however, they learnt from this lesson, realising their mistake of not diversifying risks, and not knowing enough about their products. In fact, this lesson was so valuable to them that the high-fin loach became Qian Hu's mascot to serve as a daily reminder of where they were, and where they never want to be again.

In 1990, Qian Hu expanded into the local wholesale distribution business, and increased its range of ornamental fish to include Discus, Chichlid, and Gourami. It also began diversifying into the aquarium accessories

business. Two years later, Qian Hu started exporting to the rest of the world, a journey that helped position Singapore as a major player in the export of ornamental fish.

In 1993, Qian Hu entered into a joint venture with The China Aquaculture Society and incorporated Beijing Qianyang Aquarium Co., Ltd, based in Beijing, to supply cold-water ornamental fish and aquarium accessories to Northern China. Two years later, Qian Hu acquired full ownership of the joint venture company.

In 1995, a year after the move to its present location within Sungei Tengah Agrotechnology Park, Qian Hu developed quality systems for its operations, leading to three ISO 9002 certifications for conditioning and packing of ornamental fish for export (1996); the trading, quarantine and breeding of Dragon Fish (1997), and the retail and wholesale of aquarium accessories and pet products (2000).



The farm was landscaped in such a way that runoffs from heavy rainfall would not affect the fish stock and breeding ponds. This unique system of recycling water won Qian Hu the ISO 14001 certification for its environmental management system involved in importing, exporting, conditioning, distributing and farming of tropical fish in 1998.

1997 was also an exciting year for Qian Hu. During that year, its proprietary auto-packing machines for the packing of ornamental fish – a project encouraged by the Agri-food and Veterinary Authority of Singapore (AVA), and partially funded by the EDB Innovative Development Scheme – was launched. This was followed by Qian Hu's admission into the Productivity and Standards Board's Promising Small and Medium Enterprises Programme, which helped the Group formulate and develop its strategic business plan.

The year 2000 not only marked the beginning of the new millennium, it

was also the year that Qian Hu Corporation Limited was listed on the Singapore Exchange's Sesdaq. Voted one of the most transparent companies (Sesdaq/Small Caps – up to \$100 million category) by the Singapore Investors Association of Singapore in 2001, Qian Hu remained committed to maintaining good corporate governance and transparency to its shareholders.

Its goal was to create shareholders' value by becoming a world-class ornamental fish and accessories company, through its spirit of innovation as well as its product and service quality.

Since 1999, Qian Hu began distributing aquarium and pet accessories to Malaysia, China and Thailand. Much growth was expected in this business segment as for every dollar spent on ornamental fish, five more would be spent on accessories. As such, in 2001, a joint venture company, Wan Jiang Technology Co Ltd, was established in Guangzhou

together with a Taiwanese partner, to produce the Group's proprietary brands of aquarium and pet accessories as well as other third party brands. These accessories were being distributed throughout the Group's regional subsidiaries, as well as to other countries such as Japan, Germany, United Kingdom and beyond. Qian Hu planned to increase its stake in Wan Jiang from 50% to 60%, thus making it a subsidiary of the Group.

In 2001, the Group set up a new subsidiary in Thailand – Thai Qian Hu Company Ltd – which had received approval from the country's Board of Investments to export and distribute tropical fish, as well as a new fish division in Guan Guan (Malaysia). A joint venture to distribute pet foods in Taiwan would be set up soon.

While its Singapore operations would continue to grow organically, the bulk of Qian Hu's growth in the next few years would be driven from its overseas operations.

Corporate Governance

The Directors and management are committed to high standards of corporate governance and embrace the best practices contained in the Best Practice Guide issued by the Singapore Exchange Securities Trading Limited.

The Board of Directors

The Board currently has 5 members including 3 executive directors and 2 non-executive directors who are independent directors. In order to fulfill their responsibilities, Board members are provided with timely reports as well as having separate and independent access to the Group's senior management.

The Board, amongst other matters, reviews the financial performances of the Group including matters relating to corporate governance. The Board also deliberates the Group's overall business strategy, considers and approves major investments and funding decisions, reviews the Group's financial policies and annual budget. To discharge its responsibilities effectively and efficiently, the Board has set up a number of committees to oversee specific task areas. These committees include:

The Executive Committee

The Executive Committee meets once a month to review the performances of the Company and its subsidiaries and to address important financial and non-financial issues. The committee also formulates the Group's strategic development initiatives to enhance long-term shareholder value, deliberates businesses and principal risks as well as reviewing and recommending remunerations packages. It comprises 3 executive directors and is chaired by Kenny Yap Kim Lee.

The Audit Committee

The Audit Committee, met 4 times during the financial year ended 31 December 2001, comprises 2 independent directors and 1 executive director, is chaired by Robson Lee Teck Leng. The Deputy Managing Directors and Group Financial Controller attend meetings of the Audit Committee.

The principal responsibility of the Audit Committee is to assist the Board of Directors in the identification and monitoring of areas of significant financial and business risks. It reviews the compliance with the Listing Manual and the Best Practice Guide of the Singapore Exchange Securities Trading Limited and evaluates the adequacy and effectiveness of internal accounting controls and financial reporting controls. The Committee also reviews interested party transactions as well as the Company's procedures set up to monitor and report on all interested party transactions.

Specific function of the Audit Committee includes reviewing the scope of work of the external auditors and receiving and considering the external auditors' reports. The Audit Committee also reviews the Group's monthly financial statements. The quarterly (which commenced in September 2001), half-yearly and year-end announcements are approved by the Audit Committee before they are submitted to the Board of Directors for adoption.

In FY 2002, in compliance with the new corporate governance code, an additional independent director will be appointed to the Audit Committee in place of the executive director.

The Employees' Share Option Scheme Committee

The Employees' Share Option Scheme Committee comprises 1 executive and 2 non-executive directors and is chaired by Chang Weng Leong. The Committee administers the Employees' Share Option Scheme of the Company and deliberates on matters of eligibility as well as the number of options to be granted to each participant, in accordance with the approved guidelines of the Scheme.

Reporting and Financial Controls

The Directors reviews the effectiveness of the Group's internal control system to ensure that assets are safeguarded, proper accounting records are maintained and financial information used within the business and for publication is reliable.

Detailed budgets prepared by each operating entity are reviewed by the Executive Committee, before consolidated budget is approved by the Board. Monthly performance indicators and operating results are prepared and monitored against budgets by the Executive Committee and the management.

The effectiveness of the internal financial control systems and procedures is monitored by management and the internal audit function oversees by the Group Financial Controller. At least quarterly, all major operating entities are closely examined by the Group Financial Controller, who reports to the Audit Committee on any internal control weaknesses and monitors the implementation for any improvements.

Dealing in Securities

The Group has procedures in place on dealing in securities, whereby there should be no dealings in the Company's shares by its officers during the period commencing one month prior to the announcement of the Company's quarterly, half-yearly and full year results. Directors and executives are also expected to observe insider trading laws at all times even when dealing in securities within permitted trading period.

Compliance with Existing Best Practices Guide of the Singapore Exchange

The Board of Directors confirms that during the year ended 31 December 2001, the Company has complied with the corporate governance policies set out in the Best Practices Guide issued by the Singapore Exchange Securities Trading Limited.

Corporate Governance for FY2002

The Audit Committee will continue to review the and carefully study the recommendations on the code of corporate governance as set out by the Disclosure and Accounting Standards Committee. The Audit Committee has every intention, wherever possible, to comply with the recommendations in its task to institutionalize and maintain the international discipline of good corporate governance and best practice of the Qian Hu Group.

Risk Factors

Normal Business Risk

Like in all other businesses, setting up new entities will cause the Group to suffer initial losses due to depreciation, low turnover, and competition. However, the Group does not foresee any new business entity being set up in FY 2002 and will focus on expanding the overseas market share and distribution network in the overseas subsidiaries.

Although collectibility and high inventory is part of the normal business risk, the Group has adopted prudent policies such as a 10% general provision for all trade debts overdue for more than 120 days and a full provision for all non-moving stocks for duration of more than 6 months.

Suppliers and Customers Risk

None of the Group's suppliers or customers contributes more than 5% of the total Group's turnover.

Heavily Reliant on Asian Market for the Dragon Fish

The Group exports Dragon Fish mainly to Japan and Hong Kong. The export sales for Dragon Fish contributed around 2% of the total Group's turnover and 4% of the Group's profit before tax in FY 2001. However, with more markets, such as Taiwan, opening up in FY 2002, the Group expects to diversify its risk of relying on certain Asian markets.

Fluctuation in Foreign exchange currencies against the S\$

In FY 2001, approximately 90% of the sales are dominated in S\$. Around 50% of the purchases are dominated in S\$, the rest are in Euro, US\$, and Yen. Although the Group does not enter into any hedging contracts, it does has an unstructured internal policy to hedge the fluctuation in certain currency when the management deems necessary.









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