

Issuer: Qian Hu Corporation Limited
Security: Qian Hu Corporation Limited

Meeting details:

Date: 22 March 2017

Time: 11:00H

Venue: No. 71 Jalan Lekar, Singapore 698950

Company Description

Qian Hu Corporation Limited, together with its subsidiaries, engages in breeding, farming, import, export, and distribution of ornamental fishes in Singapore, other Asian countries, Europe, and internationally. The company's Fish segment is involved in the fish farming, breeding, distribution, and trading of ornamental fishes. It exports approximately 1,000 species and varieties of ornamental fishes to approximately 80 cities and countries; and distributes to local retailers and exporters under the Qian Hu brand name. Its Accessories segment manufactures and distributes aquarium and pet accessories. This segment distributes approximately 3,000 types of aquarium and pet accessories to manufacturers and retailers, as well as exports to approximately 40 countries under the Ocean Free, OF, Classica, Aqua Zonic, Delikate, BARK, and Aristo-cats YI HU brands. The segment also operates approximately 10 retail chain stores under the name Qian Hu -- The Pet Family in China, Malaysia, and Thailand. The Plastics segment manufactures and supplies plastic bags to the ornamental fish, food, and electronics industries. Qian Hu Corporation Limited was incorporated in 1998 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BCV)

Q1. Based on the “Value-Added Statement” and the “Productivity Data” information disclosed on page 35 of the 2016 Annual Report, value added per employee has decreased from \$35,000 in FY2013 to \$30,000 in FY2016. Value added per dollar of employment cost and value added per dollar of investment in property, plant and equipment has also decreased from 1.36 to 1.2 and from 0.52 to 0.44 respectively over the same period. What is lacking in the distribution of value-added is a reasonable distribution to shareholders as providers of capital.

- (i) **Given that the earnings and margins have been trending down steadily over the years, can management help shareholders better understand the mid-to-long term prospects of each of the three core segments of the group?**
- (ii) **The group has started breeding ornamental fishes in Thailand. This appears to be a low margin business. What is the expected returns and margin from this new breeding segment in Thailand?**
- (iii) **With the venturing into farming of edible fish in China, is there sufficient management time and commitment to drive the core business segments to better profitability?**

Q2. In the 2015 Annual Report, the company has included sections on “Shareholders KPIs”, “Customers KPIs” and “Employees KPIs”. This gave shareholders a holistic understand of the group’s performance beyond pure financial numbers and it allowed shareholders a glimpse of how management views the business. **Can the company consider providing the updated KPIs for FY2016 and to include them in future annual reports?**

Q3. In the 2016 Annual Report, the Audit committee has included an Audit Committee Report (pages 107-109), in which four areas that were considered key risks of misstatement of the Group’s financial statements were listed:

- Revenue recognition (\$80.5 million)
- Valuation of brooder stocks (\$8.2 million - 10.5% of Group’s total assets)
- Valuation of trade and other receivables (\$33.7 million - 43.4% of Group’s total assets)
- Going concern assumption

The valuation of the trade and other receivables was also included as a “key audit matter” in the Independent Auditor’s Enhanced Auditor’s Report.

On page 37 (Statement of Financial Position), it was disclosed that total assets increased by \$1.8 million as at 31 December 2016 and the group now holds an investment property “related to a piece of freehold land situated in Batu Pahat, which was transferred to the Group as partial settlement of an outstanding amount due from the purchasers of Kim Kang Aquaculture Sdn Bhd, a former subsidiary of the Group. This has resulted in a comparable reduction in trade and other receivables balance”.

- (i) **Can shareholders understand if this transfer of freehold land was part of the original repayment plan agreed with the debtors?**

Also, on page 161 (Note 10 - Trade and other receivables), it was also disclosed that:

Included in other receivables of the Group and Company as at 31 December 2016 is a non-trade amount of approximately \$2.8 million (2015: \$2.6 million) owing by the purchasers of KKS B which is repayable via brooder stocks over a two-year period commencing 1 January 2017.

- (ii) This disclosure of the purchasers of KKSB paying back the group in brooder stocks over a two-year period is new. **Can the audit committee explain if this is a new arrangement with the debtor?**
- (iii) **All things taken into consideration, can the audit committee elaborate further on how it had assessed and arrived at a conclusion on the “reasonableness of the recoverability”?** It would appear that the group has difficulties collecting cash from the purchasers of KKSB.

Still on page 161 (Note 10 - Trade and other receivables), it was also disclosed that:

The receivables from GZQH as at 31 December 2015 were repayable on demand. During 2016, the Company entered into a repayment arrangement with GZQH and consequently, \$0.8 million of the receivables as of 31 December 2016 is due on 31 December 2017 and the remaining amount of \$9.0 million is due on 31 March 2018.

- (iv) **Can the audit committee help shareholders understand what assurance the group has that the receivable amount of \$0.8 million will be collected on or before 31 December 2017 and the remaining amount of \$9.0 million on or before 31 March 2018?**