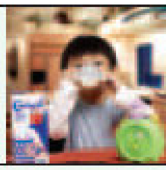
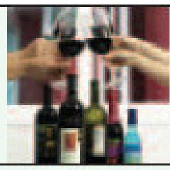
QAF Limited

# Investing in the future


annual report 2004



# Contents



**Rationale of QAF Logo**

The stylised bread-like icon portrays our core business in food.

The two extendable open-ended arms signify our ability to grow and expand our business strategically.

The colour blue represents our significant presence in overseas markets. The colour green represents our reputation for providing fresh and quality products.

The logo as a whole personifies our corporate identity – a focused and progressive food company making strategic moves all the time.

2004 was a generally good year for the QAF Group. The Group has achieved a Group Profit Before Tax of $17.2 million and a Group Profit After Tax and Minority Interest of $10.4 million for the financial year ended 31 December 2004 ('FY 2004'). These were achieved amidst quite challenging conditions.

Going forward, I believe that the regional economies may undergo a slowdown. However, I am confident that the QAF Group will continue to achieve success in the regional markets due to its core strengths which management has formulated and implemented in the past years.

The Directors are pleased to recommend a first and final dividend of 2.0 cents per stock unit less tax at 20% for FY 2004.

On behalf of the Board, I would like to thank all the QAF Group's stockholders, bankers, customers, employees, suppliers and business associates who have, over the past year, done so much to contribute to the Group's success.

**Didi Dawis**
Chairman
8 March 2005

The past financial year ended 31 December 2004 ('FY 2004') was an eventful year. Firstly, management is pleased to note that the Group has achieved a remarkable improvement in its operating performance and financial results. Secondly, the QAF Group has during FY2004 entered into several new businesses via acquisitions in the dairy and milk production industry in Australia. These investments should enable the Group to continue its growth momentum, especially in the potentially attractive and promising sectors of the regional food industry.

Group turnover for FY 2004 was $620.0 million and this is an approximate $189 million decline over the turnover of $809.4 million for the financial year ended 31 December 2003 ('FY 2003'). This decline resulted because the financial results of the Group's former supermarket operations under Shop N Save Pte Ltd, which had a turnover of $232 million in FY 2003, was deconsolidated from the Group after it had been sold. However at the same time, the Group saw increased sales from its bakery operations in Singapore, Malaysia and the Philippines which introduced new products and expanded market shares. QAF Meats, the fully integrated producer of meat located in Australia, also increased sales by entering and increasing sales into new segments. New Australian businesses acquired during the year such as the Bakers Maison bakery operations in New South Wales and Challenge Australian Dairy Pty Ltd, a dairy trading and manufacturing operation in Western Australia, also contributed to Group turnover.

Group Profit from Operating Activities for FY 2004 was $26.6 million and this is a sharp turnaround of $40.1 million from a Group Loss from Operating Activities of $13.5 million for FY 2003. Group profit before tax ('PBT') for FY 2004 was $17.2 million and this is an increase of 102% over FY 2003's PBT of $8.5 million. It must be noted that FY 2003's PBT has included an exceptional gain of about $33 million which arose mainly from the disposal of Shop N Save Pte Ltd. If the said exceptional gain was excluded, Group loss before tax for FY 2003 would have been about $24.5 million and the improvement in PBT for FY 2004 over that of FY 2003 would have been even more substantial at $41.7 million. Both the substantial turnaround in Group Profit from Operating Activities and PBT are attributed to the much improved financial performance of QAF Meats. After facing losses due to high production and animal feed costs throughout 2003 as a result of the worst drought in Australia's history, QAF Meats has once again achieved profitability through higher product selling prices and substantially lower production costs from the second half of FY 2004. The bakery operations in Singapore and the Philippines also contributed to the increase in Group profits.

Group profit after tax and minority interests ('PATM') for FY 2004 declined by 68% to $10.4 million as compared to $32.6 million for FY 2003. PATM was higher in FY 2003 because PATM for FY 2003 includes a tax benefit as well as a reduction in the deferred tax liability in the QAF Meats group of companies which led to an overall tax credit of approximately $28 million for the QAF Group.

QAF Meats has maintained its unique position as the largest producer of meat in Australia and the region. Sales increased as QAF Meats increased its penetration into more profitable segments. Productivity has also increased with higher production levels at the farm operations. Production costs have now been substantially reduced due to the recent good grain harvests in Australia and the negative effects of the last drought have abated. The QAF Meats Group, including 51% owned Diamond Valley Pork Pty Ltd, have been achieving success in developing new markets for its products. These factors will contribute to the continued profitability of QAF Meats going forward. It is also noteworthy that QAF Meats has also, during the year, embarked on several research initiatives to not only improve productivity and efficiency in production but also in the latest technology to utilise animal waste for the making of clean and safe products which are also viable commercially, such as biogas energy.

The Group's bakery operations have continued to perform well. Both the Gardenia and Bonjour brands maintained their respective number 1 and 2 positions in Singapore. Despite keen competition, the operations together increased their profitability and market share.

Gardenia Philippines has made good progress in strengthening its number 1 position in the Metro Manila market. Sales in FY 2004 grew very rapidly by more than 32% and Gardenia's market share is now more than 50% of the said market. The Company has not only increased its market penetration rates in the established Metro Manila market by intensifying the distribution of its products to all the major supermarket chains as well as to the smaller provision and variety retail stores, but has also steadily expanded its sales to the neighbouring provinces in Luzon as well as to part of the Visayas. An additional production line was installed at the end of 2004 to cater to the rapidly increasing demand for Gardenia products, bringing the total number of production lines to three. With encouraging sales growth to-date and fast increasing gains in market share, it is envisaged that Gardenia Philippines will install additional fully automated lines in the coming months.

The bakery operations in Malaysia under Gardenia Bakeries (KL) Sdn Bhd ('GBKL') continued to increase its sales revenue. The Company took steps to consolidate its number 1 position in the Malaysia packaged bread market. A new fully automated bread line was commissioned in 2004 and GBKL now has 7 bread and bun production lines in 4 plants, making it the largest bakery operation in South-east Asia.



The increased capacity and more efficient utilisation of assets have now placed GBKL in a good position to improve on its already dominant market position even further, despite increased competition. The successful launches of a new bread product which appeals to the health conscious segment of the market and a new range of economically priced quality bakery products will lead to an even better performance in the coming year. GBKL's plants are now running at full capacity and plans are now in place to add new production lines.

2004 also marks the entry of QAF into several new businesses. The Group has been trading in large quantities of milk and dairy products in Singapore and the region for several years and the Gardenia bakery operations also utilise a significant amount of milk powder as an ingredient for their products. As such, it is an opportune time for the Group to build a new business in the milk and dairy products industry especially so when one considers the rapid growth in demand for dairy products from Asian markets in recent times. In August 2004, the QAF Group made its first investment in the milk and dairy industry by purchasing the entire assets and business of a dairy producer located in Cobram, Victoria, Australia. Australia is one of the most efficient and low cost producers of high quality milk and dairy products in the world. The assets included 310 hectares of freehold land, 600 heads of Freisian dairy cattle and a complete range of dairy producing and ancillary equipment. Since taking over the operation, the Group's management has rapidly expanded the herd population by more than 50%. The Group has a competitive advantage in that it has access to large areas of buffer land belonging to QAF Meats which can be utilised for pastures. As such, the herd population can be increased rapidly without additional large investments in land and water resources. Cost of feed can also be much less as the dairy cattle can graze on the said buffer pasture land. We are pleased with the performance of the dairy producer to-date and the Group intends to make further investments in dairy producers and build up its milk producing capacity in the near future.

In October 2004, the Group acquired a 51% shareholding interest in Challenge Australian Dairy Pty Ltd ('Challenge'), one of the leading companies in Western Australia which is involved in the trading of raw milk as well as the manufacturing of fresh milk, milk and whey powders, cheese, butter and other dairy products. Challenge's products are sold domestically in Australia as well as in many overseas markets. The other 49% shareholder of Challenge is Challenge Dairy Co-operative Ltd ('CDC') a major Western Australian co-operative with shareholder members who are current dairy farmers and who supply milk to the Challenge Group. These shareholder members constitute about half of Western Australia's existing dairy farmers. The investment in Challenge allows the QAF Group to have access to a significant volume of raw milk supply, a key competitive advantage especially in the current environment where supply is extremely tight amidst rapidly increasing world demand and rising prices. Cost of milk production in Western Australia is also one of the lowest by world standards and product quality is also of a very high standard. These factors and the proximity of Western Australia to the Asian markets make Challenge uniquely poised to be the launch pad for further growth and investments in the milk and dairy industry.

An investment has also been made in PSC Corporation Ltd, a Singapore public-listed company whose main business is in the manufacturing and distribution of food and convenience products in Singapore. There is a synergy between the QAF Group's existing food products and businesses with that of PSC's which the QAF Group hopes to develop in the future. To date, the Group has 21.05% of the total issued capital in PSC.

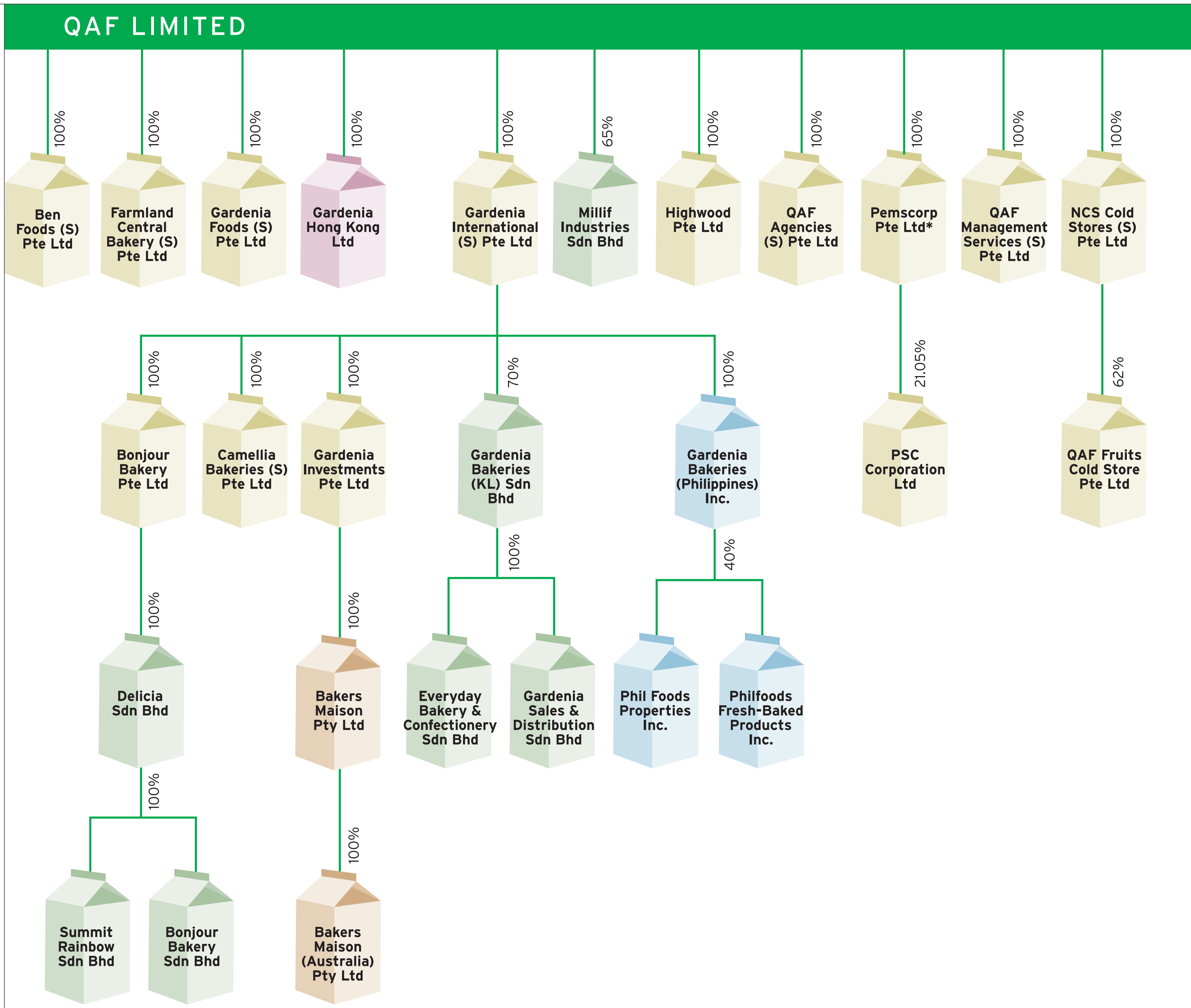
To facilitate the Group's expansion and, at the same time, improve upon the capital structure of the Group, a Rights Issue was carried out in October 2004. I am pleased to inform that the Rights Issue was fully subscribed and a total of 87,952,593 ordinary shares in the Company and 87,952,593 warrants were allotted in November 2004. The warrants are listed and quoted on the SGX-ST.

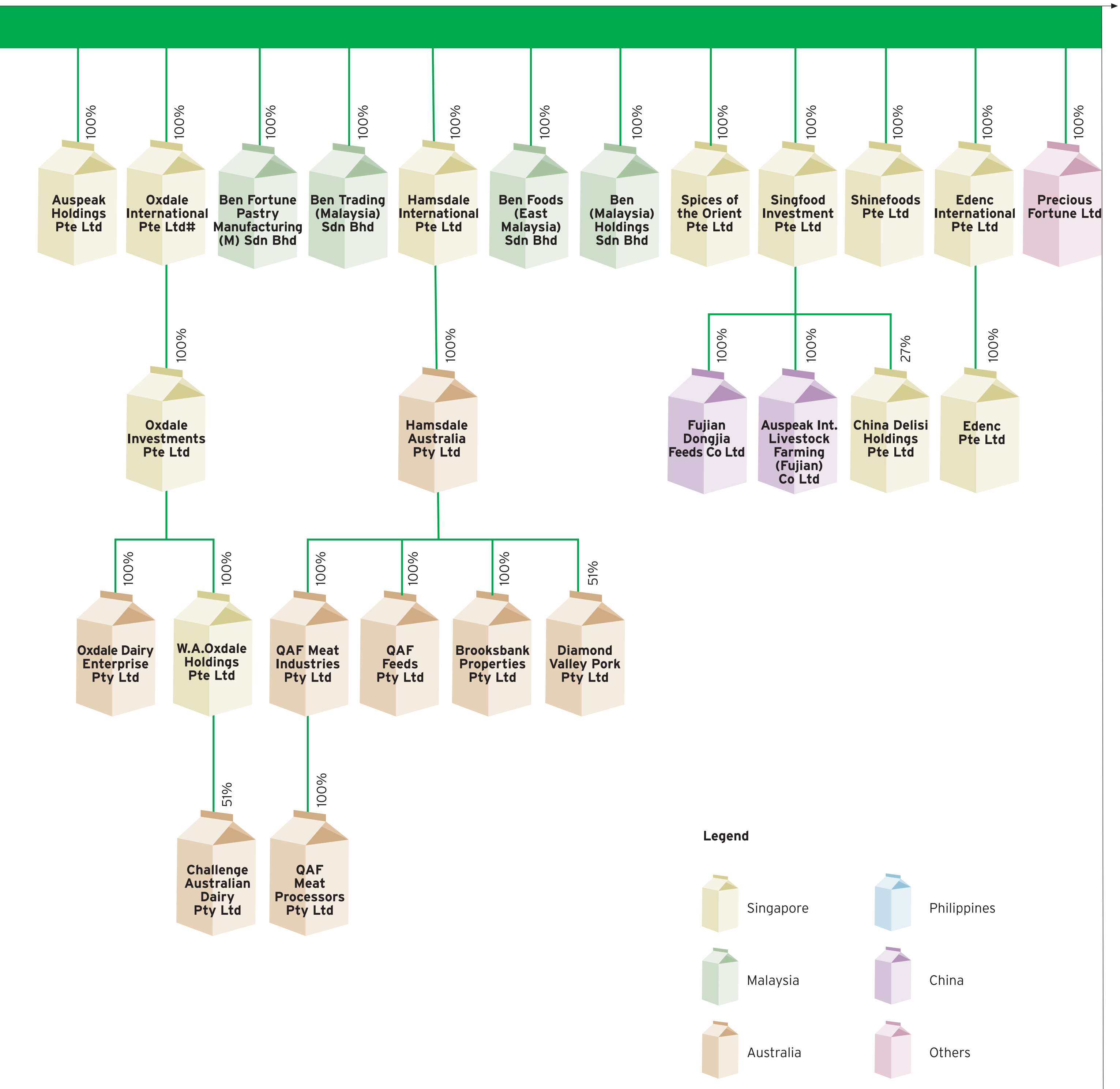
The QAF Group has over the last few years been successful in building up its regional business and has caught the attention of various government agencies. We are pleased to note that International Enterprise Singapore ('IE Singapore'), the former Trade Development Board, has ranked QAF in a high position within the top 100 Singapore companies which have achieved the highest overseas revenue. This ranking award recognises companies which are successful in charting new frontiers and which are contributing towards the development of Singapore's external economy. Invest Australia, a department of the Australian government, has also ranked the QAF Group as the fifth largest Singaporean Foreign Direct Investor in Australia in terms of Australian revenue generated. These ranking awards, in addition to numerous other accolades which have been given or awarded to the QAF Group over the years, clearly show that the Group is a fast growing food group with established businesses in the various rapidly growing sectors in the regional food industry.

With its successful operations and investments in the rapidly developing regional food markets and its well formulated business strategy, the QAF Group is now well poised for growth, both organically in its already established businesses as well as by investments in new food-based businesses with good growth potential. I have no doubt that QAF will perform even better in 2005.

**Tan Kong King**
Group Managing Director
8 March 2005

## GROUP STRUCTURE
as at 8 March 2005






* Formerly known as Maple Bakeries (S) Pte Ltd

\# Formerly known as Eurofood (Singapore) Pte Ltd

# BOARD OF DIRECTORS

Didi Dawis
*Chairman*

Andree Halim
*Vice Chairman*

Tan Kong King
*Group Managing Director*

Phua Bah Lee

Tarn Teh Chuen

Derek Cheong Kheng Beng

Kelvin Chia Hoo Khun

Tan Hin Huat

## Didi Dawis

Didi Dawis, aged 59, was appointed as a Director of the Company on 15 March 1988 and has been holding the position as Chairman of the Board since July 1990. He was last re-elected to the Board on 30 April 2004. As an established entrepreneur, Mr Dawis has interests in various businesses in Indonesia including being the sole franchise holder of Video Ezy, trading and distribution of building materials, real estate development, hotel and banking, some of which corporations he is also acting as the president director or chairman. He had also been the owner and joint-venture partner of a news magazine and a newspaper in Indonesia for some 8 years. Mr Dawis was instrumental in setting up the social lottery enterprise for the Indonesian Department of Social Affairs from 1986 to 1993 and is a member of the councils of several charitable and civic associations in Indonesia. As from July 2004 he has been elected as the vice-chairman of the Indonesian Chamber of Commerce and Industry, Kadin Indonesia-China Committee.

## Andree Halim

Andree Halim, aged 57, was appointed as a Director and Vice Chairman of the Company on 11 October 2003. He was last re-elected to the Board on 30 April 2004. Mr Halim graduated with a diploma in Business Studies from the South East London Technical College of United Kingdom. Mr Halim is an entrepreneur and holds interests in a wide range of businesses. He is the Vice-Chairman of Peaktop International Holdings Limited, a corporation listed in the Hong Kong Stock Exchange. He also holds directorships in various other private enterprises.

## Tan Kong King

Tan Kong King, aged 54, was first appointed as a non-executive Director of the Company on 15 June 1995 and assumed the position as the Group Managing Director of the QAF Group in January 1996. Since then, Mr Tan has streamlined and refocused the QAF Group in the food industry, expanding the bakery segment in markets where there are long term demand and prospects, disposing off the various insignificant non-food related operations and leading the QAF Group into the new meat production and dairy production segments in Australia which set the ground for other synergistic expansion. In the early part of his career, Mr Tan had worked with an international accounting firm for 5 years. Subsequent to which he joined and assumed the managing directorship for the KMP Private Ltd group of companies from 1981 to 2004. Mr Tan has over 24 years of experience in managing group companies to-date and has much knowledge in the area of corporate restructuring and financing, investment strategies as well as group operations management. Mr Tan holds a B. Sc. Economics degree from the London School of Economics, University of London. In November 2004, Mr Tan was appointed as a non-executive director of Zhongguo Jilong Limited, a company listed on the Singapore Stock Exchange.

## Tarn Teh Chuen

Tarn Teh Chuen, aged 45, was appointed as a Director on 15 June 1995 and last re-elected to the Board on 22 May 2002. Ms Tarn assumed the executive role as the Head of Treasury for the QAF Group in 1998 taking charge of the planning of group financing, negotiation with banks on terms, cash management and currency exposure control. Ms Tarn started working for KMP Private Ltd group of companies since 1983 as an accountant and has assumed the post as its group financial controller since 1990. She has over 15 years of experience in the structuring of loans and group financing to-date. She graduated with a Bachelor of Accountancy degree from the National University of Singapore and has been a Certified Public Accountant of the Institute of Certified Public Accountants of Singapore since 1982.

## Derek Cheong Kheng Beng

Derek Cheong Kheng Beng, aged 50, was appointed as a Director on 18 January 1996 and last re-elected to the Board on 30 April 2004. Mr Cheong was made an executive director as Head of Corporate Development for the QAF Group in January 2002 taking charge of matters in relation to mergers, acquisitions and business development. Prior to this appointment, he was the senior vice president of Business Development with the KMP Private Ltd group of companies for 7 years. He had also worked as a treasury manager in a Singapore listed construction and engineering company, a corporate manager of United Industrial Corporation Limited as well as an assistant manager of Loans & Syndications in a merchant bank in Singapore before joining the KMP Group. Mr Cheong graduated with a Bachelor of Commerce degree from the University of Toronto, Canada. He also holds a Master of Business Administration from the University of British Columbia, Canada.

## Phua Bah Lee

Phua Bah Lee, aged 72, was appointed as an independent non-executive Director on 8 January 1990. He was last re-elected to the Board on 30 April 2004. Mr Phua was an established member of the Government of Singapore having served as the Parliamentary Secretary of the Ministry of Communications from 1968 to 1971 and as the Senior Parliamentary Secretary of the Ministry of Defence from 1972 to 1988. He was a Member of Parliament for the Tampines Constituency from 1968 to 1988. Mr Phua is also a non-executive director of other Singapore listed companies namely GP Batteries International Ltd, GP Industries Ltd, Metro Holdings Ltd, Pan-United Corporation Ltd, Wing Tai Holdings Ltd and Singapura Finance Ltd. Mr Phua graduated from the Nanyang University in Singapore with a degree in Bachelor of Commerce.

## Kelvin Chia Hoo Khun

Kelvin Chia Hoo Khun, aged 53, was appointed as an independent non-executive Director of the Company on 25 January 2000. He was last re-elected to the Board on 29 May 2003. Mr Chia is the senior managing partner of Kelvin Chia Partnership, a regional law firm with offices in Singapore, Vietnam, China and Myanmar. He specialises in the investment law in Vietnam and commercial litigation in Singapore. Mr Chia is also a director of Bausch & Lomb Singapore Pte Ltd, Spear Leeds & Kellogg (Singapore) Pte Ltd and several other private companies. Mr Chia holds a Bachelor of Law degree from the University of Singapore.

## Tan Hin Huat

Tan Hin Huat, aged 52, was appointed as an independent non-executive Director of the Company on 2 September 2002. He was last re-elected to the Board on 29 May 2003. Mr Tan is currently a Senior Vice President of EFG Private Bank SA, Singapore Branch (Merchant Bank). He has more than 24 years of working experience in regional banking business covering the area of corporate banking, trade finance and private banking. Prior to joining EFG Private Bank group, he was the Head of Private Banking of ING Bank N.V. Singapore for over 5 years. He had also worked for a number of other major international banks including American Express Bank, Chemical Bank, Credit Lyonnais and ING Bank N.V. Mr Tan holds a Bachelor of Commerce degree from Nanyang University, Singapore.

### Audit Committee
Mr Kelvin Chia Hoo Khun
Mr Phua Bah Lee
Mr Tan Hin Huat

### Secretary
Ms Lee Woan Ling

### Registered And Corporate Office
150 South Bridge Road
#09-04 Fook Hai Building
Singapore 058727
Tel 6538 2866
Fax 6538 6866

### Place Of Incorporation
Singapore

### Date Of Incorporation
3 March 1958

### Company Registration No.
195800035D

### Registrar
Barbinder & Co Pte Ltd
8 Cross Street
#11-00 PWC Building
Singapore 048424
Tel 6236 3333
Fax 6236 3405

### Auditors
Ernst & Young
10 Collyer Quay
#21-01 Ocean Building
Singapore 049315

Audit Partner:
Mr Nagaraj Sivaram
(Since the financial year ended 31 December 2003)

### Principal Bankers
Citibank N.A.
DBS Bank Limited
Rabobank International
United Overseas Bank Limited

# FOOD MANUFACTURING

## SINGAPORE BAKERY OPERATIONS

### Gardenia Foods (S) Pte Ltd ('Gardenia Singapore')

The Group's bakery operations in Singapore under wholly owned Gardenia Singapore performed satisfactorily. This was largely achieved through strong management controls, operational efficiency and productivity. Innovative new products were also introduced to boost sales revenue in the face of keen competition.

To cater to the needs and preferences of an increasingly discerning market, 3 new products were introduced in 2004. In May 2004, the Multi-Grain and the Lite Meal Roll were launched. These 2 products were introduced to meet consumers' preference for products which contribute significantly towards the maintenance of healthier lifestyles. The Multi-Grain has a choice blend of 12 grains and seeds which provides health-sustaining nutrients for the body. The Lite Meal Roll, which is shaped and sized like mini burger buns, is developed especially for school children and families with young children. Like the Multi-Grain, these rolls which are made of wholemeal flour and oat fibre provide a wholesome and nutritious product for our customers. In November, a new product, the Festive Delight, was marketed as a perfect treat for all the year-end festivities. With a unique cake-like texture, this aromatic loaf follows a homestyle recipe and is a visual feast with its laden crust of fruit mix such as raisins, diced figs, chelory, candied ginger, orange peel, cherries along with crisp almond flakes.

Gardenia Singapore launched several successful publicity campaigns in 2004. To reward customers, Gardenia rolled out a highly successful National Consumer Promotion from July to August. Consumers were required to collect 4 packagings of the Enriched White Bread to exchange for a free Gardenia California Raisin Loaf or Corn Loaf at supermarkets, convenience stores, petrol marts and general retailers. Press advertisements for the promotion were taken in the Straits Times, Lianhe Zaobao and TODAY. To maintain brand visibility, the Company participates in various sponsorship programmes such as the annual School Health Fair which aimed to encourage healthy eating habits among school children. The Company also took part in the Singapore Food Expo 2004, a popular biennial event, which attracted more than 700,000 visitors over 6 days. Gardenia Singapore used the opportunity to create more awareness of the recently launched Nutri Multi-Grain and Lite Meal Rolls among consumers. In addition, the Company was a sponsor of the game show "Let's Party With Food 2" on Mediacorp's Channel 8 which was well received. In December 2004, the Company hosted its popular annual Homemakers Club Rendezvous event. Participants competed to prepare innovative sandwiches from a variety of Gardenia breads and ingredients to win vouchers and prizes. These publicity campaigns were carried out so as to enhance the image of the Gardenia brand which is associated with tastiness, convenience and health.

### Bonjour Bakery Pte Ltd ('Bonjour')

Bonjour maintained its number 2 position in the Singapore branded bakery product market. It maintains its competitive edge by focusing actively on bringing new products onto the market.

Adding to its existing range of loaf breads and buns, Bonjour has entered into the complementary business segment of cakes and pastries.

In August 2004, Bonjour launched a new range of Light Cheese Cakes in original pure and fruity peach flavours. Subsequently in September 2004, the Chocolate Cheese Cake was added to the range. Using calcium rich 100% pure cream cheese, the cakes are uniquely steam-baked to perfection so as to give them a refreshingly light texture and smooth creamy taste. These new products are sold chilled to ensure consistent freshness and quality. To date, these new products have been well received in the market.

Another product, the Red Bean Bread, was introduced in November 2004. Soft and delicious with a unique blend of red bean paste, this product takes on the familiar taste and smell of the locally popular 'potong' ice-cream.

### Review of Performance of Bakery Operations in Singapore

| | 2004 S$ | 2003 S$ | Increase/(Decrease) S$ | % |
|---|---|---|---|---|
| Sales | 65.8 m | 66.6 m | (0.8) m | (1.2) |
| Earnings* | 10.4 m | 9.9 m | 0.5 m | 5.1 |

*Earnings include operating profits of companies/company and fees earned by holding company.

While revenue for FY 2004 declined by 1.2% to $65.8 million due to intense competition in a relatively mature market, earnings increased by 5.1% to $10.4 million in FY 2004 due to operational efficiencies and productivity gains.

## GARDENIA BAKERIES (KL) SDN BHD ('GBKL')

The Group's bakery operations in Malaysia under 70%-owned GBKL is the largest of its kind in South-east Asia. It operates 4 plants in West Malaysia with 4 bread production lines and 3 bun and roll lines which are capable of producing 190 million loaves of bread per annum and 400 million pieces of buns and rolls per annum.

2004 was a year of consolidation for GBKL. While sales continued to grow, margins were affected by the increase in raw material and fuel costs. Steps were taken to consolidate GBKL's number 1 position in the Malaysian packaged bread market.

In April 2004, a new fully automated bread line was successfully commissioned at one of GBKL's plants at Bukit Kemuning, Selangor. The additional capacity allowed the Company to rationalise its total production mix which led to higher overall productivity and efficiency.

Despite increased competitive activities from other bakeries, turnover for 2004 reached a new high of RM292.8 million. With increased capacity and better utilisation of its plant assets, GBKL is now in a position to increase its market share despite competition.

Two new products were successfully launched in 2004. Gardenia Breakthru was introduced to the market in the last quarter of 2004. This product is specially made to meet the demands of health conscious customers as it is specially formulated with low Glycaemic Index and Loads (i.e. reduced sugar content levels). The product is also baked with special ingredients. The Bonanza range of bread products was also launched in the latter half of 2004 to meet the needs of the price sensitive segment of the market by offering a product of the high quality standard which consumers have come to expect with the Gardenia brand, at a very affordable price. Both the Gardenia Breakthru and the Bonanza products have been very well received by the market.


The Company has also expanded its already extensive distribution system by adding on more routes and distribution outlets so as to prepare for the increased volume resulting from the new additional bread line. The number of distribution points has now reached an impressive 19,000 and the market reach of the Gardenia product is now further established. In addition, GBKL has implemented initiatives to revamp and refresh its overall image by introducing new packaging for its products as well as to improve the visual designs on its delivery trucks and vans. These were undertaken to enhance the brand of Gardenia.

GBKL has also embarked on a programme to attain ISI2020 (the Universal Integrated System) certification for all its plants. This is part of GBKL's on-going commitment to formulate, produce and distribute bakery products of the highest quality to its customers.

Given the abovementioned programmes and initiatives, the performance of GBKL, in terms of growth of both turnover and profitability, will achieve new highs in the near future.

### Review of Performance of GBKL

| | 2004 S$ | 2003 S$ | Increase/(Decrease) S$ | % |
|---|---|---|---|---|
| Sales | 130.2 m | 126.4 m | 3.8 m | 3.0 |
| Earnings | 14.4 m | 17.8 m | (3.4) m | (19.1) |

Revenue increased by 3% to S$130.2 million in 2004, another record for GBKL. However, profitability declined by about 19% to $14.4 million due to higher raw material and fuel costs, start up costs associated with the commissioning of new production line in the middle of 2004 as well as increased expenses resulting from a major scheduled repair and overhaul programme for GBKL's production lines and equipment. With the recent successful launch of a new range of bread products and increased production efficiencies, GBKL's performance is expected to improve both in terms of sales and profitability in 2005.

## GARDENIA BAKERIES (PHILIPPINES) INC. ('GARDENIA PHILIPPINES')

It was another successful year for Gardenia Philippines, the Group's bakery operation in the Philippines. Sales in 2004 grew by over 32% over that of 2003's, further establishing Gardenia's number 1 position in the Metro Manila branded bread market. Gardenia now has a dominant 53% share of the said market.

Market penetration rates were increased with the Company intensifying its distribution in Metro Manila and the surrounding provinces to more outlets of major supermarket chains as well as to smaller independent provision/variety retail stores.

Geographically, Gardenia Philippines' market has also expanded rapidly from the Metro Manila area. Gardenia products are now distributed to North Luzon as far as Ilocos Sur and to South Luzon in the Bicol region. In particular, successes in market expansion were achieved recently in the southern part of Luzon especially in the provinces of Camarines Norte, Camarines Sur and Albay, especially in the populous cities of Naga and Legaspi. The Gardenia brand is also now becoming the leading brand of bakery products in the cities of Iloilo, Kalibo and Roxas on Panay Island in the western side of the Visayas. The Company's feeder trucks now make use of the government's Nautical Highway project, a network of seaports and 'roll-on-roll-off' transport ships to transport Gardenia products to the islands of Mindoro and Panay on an overnight basis.



With the Company's 3 production lines running at full capacity during 2004, additional capacity had to be added to meet the fast growing demand from its customers, especially during the December holiday season. As such, the Company acquired a new production line for its plant in Laguna. This production line became operational in mid-December, just in time to provide Gardenia Philippines the additional production capacity to meet the sharply increased demand during the Christmas holidays. At the same time, construction of a new plant building which will house a future fully automated line capable of producing 6,000 loaves of 600 gms. each per hour, began in 2004. This new production line is slated for installation and commissioning in the near future.

Successful promotion campaigns were also launched during the year. A new television commercial was produced and aired in the second quarter of 2004 and was supported with advertising and publicity programmes in newspapers and public transit vehicles. This aggressive promotion campaign resulted in significant increases in sales and market share in 2004. Strategic promotional tie-ups with leading brands of sandwich spreads and juices were made to give additional value to customers and help stimulate increased purchases. In particular, sales of Gardenia pandesal products improved significantly as a result of the joint promotion effort with Kraft's Eden cheese tie-up. Bundling and value-pack promotions were undertaken in supermarkets and variety stores to attract more consumers.

2004 also marks the beginning of Gardenia Philippines' programme to promote its bakery products via sandwich preparation demonstrations. These were conducted by the Company's in-house nutritionist and were held in shopping malls and exhibitions, in conjunction with special events. The demonstrations were so popular that some were even televised on major television programmes. New sandwich recipe tags were also developed and attached to the Gardenia products so as to increase appreciation of the benefits associated with Gardenia products and which will also lead to increased sales.

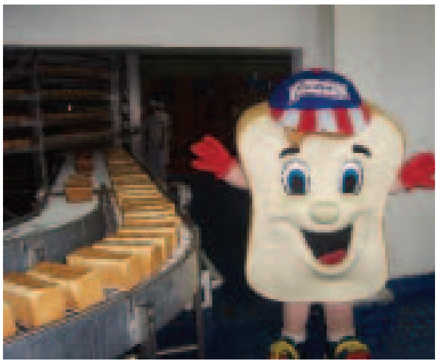
The Gardenia plant tour programme continues to be an effective way of instilling awareness in the minds of young students along with their parents and accompanying adults. The tours demonstrated the sophistication of our state-of-the-art bread manufacturing facility in a truly clean and sanitary environment. Visitors were also given a chance to sample our new products and to buy bread at factory discounted prices. Tour visitors to our plant ranged from a low of 500 to a high of 3,000 daily, making the Gardenia bread plant one of the most student-toured factories in the country.

As an affirmation of Gardenia's rapidly growing market acceptance and leadership, the Company was accorded the "Superbrand" status for 2004-2005. 2004 was also an eventful year with Gardenia Philippines being awarded the coveted ANCA Award as the "Outstanding Bread Manufacturer" by the Consumer's Union of the Philippines. The Company was also presented with the National Consumers Quality and People's Choice Award as the "Top Loafbread Brand" by the National Consumer Affairs Foundation. The "Superbrand" logo together with the ISO Certified and HACCP Certified markings are now prominently printed on the fast moving white loaf bread and high fiber wheat bread package designs, unique claims no other loaf bread manufacturer in the Philippines could make.

### Review of Performance of Gardenia Philippines

| | 2004<br>S$ | 2003<br>S$ | Increase/(Decrease)<br>S$ | <br>% |
|---|---|---|---|---|
| Sales | 29.8 m | 22.5 m | 7.3 m | 32.4 |
| Earnings | 2.3 m | 1.1 m | 1.2 m | 109.0 |





Revenue grew by 32.4% to $29.8 million in 2004 as Gardenia Philippines continued its strong growth momentum by intensifying the distribution of its products in the Metro Manila area which led to an increase in market share. New geographical markets also opened up when the Company started its marketing programme in neighbouring provinces in Luzon as well as in parts of the Visayas.

Profitability for the Company increased significantly by 109% to $2.3 million due to higher contributions from sales as well as from economies of scale.

## BAKERS MAISON (AUSTRALIA) PTY LTD ('BAKERS MAISON')

The Bakers Maison plant is located in East Botany, New South Wales, Australia just 15 minutes from the Sydney Kingsford Smith International Airport. This plant specialises in the manufacture of quality French style par-baked breads as well as an extensive list of full butter pastries.

The par-baked products range includes variants of baguette, batards and rolls while the mixed pastries include different types of croissants, Danish, snails, muffins and lattice. The plant is also capable of manufacturing daily fresh baked pastry products for distribution to cafes, restaurants, hotels, convenience stores and bakery shops within Sydney.

Perennial favourites of Bakers Maison include crusty batards of the Butternut Pumpkin and the Corn & Canola Damper range. As part of its efforts to introduce new and exciting products, Bakers Maison has also introduced an exhaustive range of tasty pies and savoury puffs to tempt the local palates for snack items.

Bakers Maison uses its own trucks for distribution within Sydney for its daily fresh products. The Company sells direct to bakery cafes, hotels, petrol kiosks, educational institutions and food caterers. Bakers Maison also supplies wholesalers who in turn distributes its products to airlines, cruise ships, clubs, and restaurants. Distributors are also used to reach customers at other areas of Australia, even as far as Tasmania. It is also the main supplier for pastry products to the Caltex petrol stations' Starmart stores in Australia.

The Company has a unique strategy in that all of its products are sold on a non-returnable basis and this ensures an almost zero wastage of ingredients used.

Bakers Maison was awarded a HACCP Certificate in the fourth quarter of 2004. This award and the good track record of reliable supply to food outlets enable the Company to achieve a good position to grow the business. Talks with major potential customers are on going. While there are plans for export sales to overseas markets, Bakers Maison's immediate priority is to increase sales to the existing customer base, especially to the Caltex stores. The Company is also evaluating the feasibility of selling its range of fresh bread and pastries to cafes, hotels and restaurants in other Australian cities on a daily basis.

The QAF Group is now considering the use of Bakers Maison's frozen and par-baked technology to enter new markets previously untapped by the Group's Gardenia operations. The said technology can reduce the start-up costs of new bakeries in terms of the size of investments in land, factory building and equipment.

# PRIMARY PRODUCTION

## QAF MEATS

QAF Meats is the largest producer of pigs and pork meat in Australia and the region. Sales in 2004 increased to 968,000 heads or more than 72,000 MT of meat.

In Australia, QAF Meats is four times larger than its next largest producer and has more than 20% of the total domestic market and its export sales constitute about 25% of total Australian pork exports. Its dominant position in the export markets is seen in the fact that its market shares are 29% and 27% of total Australian pork exports to Singapore and Japan respectively.

The operations of QAF Meats are fully integrated and consist of stockfeed milling, breeding and farm operations, abattoir (slaughterhouse) operations, deboning, meat cutting as well as distribution.

Breeding and farm operations are carried out in 8 company-owned production sites which have a total area of 100 square kilometres. These sites are located in separate areas and are spread out in the states of New South Wales ('NSW') and Victoria. In addition, the Group uses 52 contract growers who are independent farms which breed and grow livestock belonging to and on behalf of QAF Meats.

Production systems at the farm operations are based on the latest methods and technologies which include eco-shelter production systems which are environmentally clean and efficient. The good health status of the herds are also maintained through the use of all-in-all-out ('AIAO') systems which ensure that sheds are completely cleaned out between batches of animals. Segregated weaning systems ('SEW') are also used to separate and isolate different herd batches as they grow. These production systems reduce the incidence of disease transmission.

QAF Meats produces its own stockfeed for its herd's consumption through its company-owned stockfeed mills. It owns and operates one of the largest stockfeed mills in Australia, with a capacity of more than 600,000 MT per year. The main mill is situated in Corowa, NSW while a smaller facility is located in Balpool, NSW. The major raw materials for stockfeed are wheat grain, barley, triticale, lucerne, other grains and pulses and these are purchased directly from growers in the surrounding area which is a major grain producing region. To ensure that raw materials are sourced at the most competitive price and in the right quantities and quality, QAF Meats purchases the majority of its annual requirements during the annual harvest period of December and January.

Slaughtering and deboning are operated out of QAF Meats' company-owned abattoir and deboning facility at Corowa. The abattoir is one of the largest abattoir facilities in Australia and is situated on one site, with a capacity to slaughter 1,000,000 heads per annum. QAF's

abattoir only slaughters livestock produced by QAF Meats so as to prevent possible diseases, incidences and contamination from external sources which may affect the Company's products. The use of the wholly dedicated in-house slaughter facility also allows QAF Meats to achieve the best quality carcases and meat cuts, while at the same time ensuring the maintenance of the highest hygiene and sanitation standards as well as realising the lowest possible cost.

The on-site boning facility is fully integrated with the abattoir. Production flow is synchronised by an 'on-line' computer system which also controls an automated packing system. Automation and the specialisation of cuts reduce unit processing costs as well as wastages. The deboning facilities allow QAF Meats to serve the retail market which buys meat in boxed forms as well as to export chilled meat cuts into Japan.

Operations are supported by "state of the art" quality control and research systems. QAF Meats maintains an on-site National Association of Testing Authority ('NATA') accredited laboratory to ensure highest standards of hygiene and food safety. The operations also have an ISO9000/2000 Certification and work within the guidelines of the Australian Quarantine and Inspection Service ('AQIS') approved Meat Safety and Quality Assurance Standard. Operating procedures based on the above standards have been formulated, developed and maintained for various operational activities such as cleaning, sanitation, hygiene, water supply, animal welfare, training, slaughter, boning and chilling.

During the year, QAF Meats embarked on certain research and development programmes to improve productivity and efficiency such as improving feed efficiencies, enhancing meat leanness, developing safe ways of improving animal health without resorting to antibiotics as well as increasing litter sizes and longevity of breeders. Research is also being conducted in the areas of animal welfare such as designing alternative housing systems for breeders so as to improve comfort and safety as well as more humane and efficient methods of stunning animals in abattoirs in Australia. These projects are in the forefront of animal research and are funded by industry associations and top Australian universities with QAF Meats enjoying access to the research findings.

In 2004, QAF Meats embarked on a joint venture with Energy Australia and SMEC Australia Pty Ltd (a unit of a regional energy commission, the Snowy Mountain Energy Commission) to develop an A$10 million project to convert biogas which are derived from animal effluents into energy. The project is located at QAF Meats' main farm operation in Corowa, NSW and is funded entirely by Energy Australia and SMEC Australia. The project will use the effluents from the Corowa operation. The benefits to QAF Meats will be 2-fold. Firstly, this is a convenient, cheap and efficient method of disposing effluents in an environmentally acceptable way.

Secondly, QAF Meats will have access to the energy generated from the project at a discount to the prevailing market prices throughout the duration of the project. The Company is in the forefront of developing environmentally friendly animal waste disposal systems which can be commercially viable at the same time.

QAF Meats is now established as one of the largest producers of meat in the whole region and is also the most integrated. The next strategy is to move up the value chain by developing and producing special meat products for retail consumers both in Australia and the export markets.

### Review of Performance of QAF Meats

| | 2004 S$ | 2003 S$ | Increase/(Decrease) S$ | % |
|---|---|---|---|---|
| Sales | 278.0 m | 255.9 m | 22.1 m | 8.6 |
| Earnings | 4.2 m | (45.0) m | 49.2 m | NA |

The recovery of QAF Meats can be seen in that revenue increased by 8.6% in 2004 over that of 2003. Profitability was also achieved in 2004 with earnings of $4.2 million compared with a corresponding loss of $45.0 million in 2003. After suffering losses in 2003 due to high feed costs resulting from a drought in Australia as well as from depressed product selling prices due to dumping from farmers exiting the industry, QAF Meats recovered in 2004 when it achieved lower production costs and higher selling product prices.

## DIAMOND VALLEY PORK PTY LTD ('DIAMOND VALLEY')

This joint-venture company, which is 51% owned by QAF Meats, specialises in the slaughter of sows and has a capacity of 250,000 heads per year. Located at Laverton, Melbourne, the Company provides slaughter facilities for QAF Meats as well as for other farms and wholesalers. 2004 was the first full year of operations for Diamond Valley and its performance was very encouraging with numbers slaughtered increasing steadily throughout the year for both breeders and porkers.

To meet increasing demand for its products, especially exports, Diamond Valley commissioned a new boning line which increased its boning room capacity to 300 sows per day. A total of 54,000 sows were boned in 2004. In June 2004, a new mincing line was installed to produce minced meat products for export to the Japanese market. These products are additions to its main revenue which comes from slaughter fees.

Diamond Valley will continue to increase the volume of heads slaughtered under contract and this, along with increased sales of boned and minced meat products, will enable the plant to achieve full capacity as well as profitability.



# DAIRY INDUSTRY

## OXDALE DAIRY ENTERPRISE PTY LTD ('OXDALE DAIRY')

The QAF Group has embarked on an investment programme in 2004 to develop a new core business in the milk and dairy products industry.

The Group has been involved in the business of importing and exporting large quantities of milk and dairy products in the regional markets for many years. Products are distributed to Singapore, Philippines, Vietnam, Cambodia and Myanmar under the Cowhead brand which is now an established brand for milk and dairy products in Singapore and the region. In addition, the Group's Gardenia bakery operations in Singapore, Malaysia and the Philippines utilise a significant amount of milk powder for their bakery production. Most of the milk products are sourced from Australia and New Zealand. The combination of several major factors such as the current leading position of the Group's Cowhead brand in the regional market, the industry knowledge and expertise built up by the Group over the years as well as the rapid growth in demand for milk and dairy products in Asia, particularly China, has created an opportunity for the QAF Group to develop the milk and dairy products business into a new core business.

In August 2004, the Group's wholly owned subsidiary, Oxdale Dairy bought a dairy producer in Cobram, Victoria, Australia which had 600 heads of Freisian dairy cattle. Australia is one of the world's most efficient and low cost producers of good quality milk and dairy products. The land area of the dairy producer is 310 hectares and the operations have access to adequate water. It is also supported by all the necessary ancillary assets such as a 42 stand rotary dairy, irrigation equipment, laneways, barns and electric fences. To-date, the total number of Freisian cattle has increased to 956. The Group has a competitive advantage in that it utilises the large areas of buffer pasture land belonging to QAF Meats to grow and pasture its dairy cattle population. This advantage allows Oxdale Dairy to increase its herd rapidly without additional large investments in land and water resources. Cost of feed is also lower as Oxdale Dairy's cattle can also graze on QAF Meats' buffer pasture land.

The performance to-date of Oxdale Dairy is encouraging. Given the high demand for milk from manufacturers, Oxdale is presently negotiating the purchase of another large dairy producer in the Murray-Goulburn region of Victoria. It is envisaged that Oxdale Dairy should have about 1,500 milking cows in the near future and this will make it one of the larger dairy producers in Australia.

## CHALLENGE AUSTRALIAN DAIRY PTY LTD ('CHALLENGE')

In its next move to establish a new core business in the milk and dairy production after the purchase of a dairy producer in Victoria, the QAF Group acquired a 51% stake in Challenge, one of the leading companies in Western Australia which is involved in the trading of raw milk as well as the manufacturing and processing of fresh milk, milk and whey powders, cheese, butter and other dairy products. These products are exported as well as sold in the Australian markets. The investment was completed in October 2004.

Challenge is located at Capel, Western Australia. The other 49% shareholder of Challenge is Challenge Dairy Co-operative Ltd ('CDC'), a co-operative whose shareholder members are current dairy farmers in Western Australia and who are supplying milk to the Challenge Group.

The key to success in dairy manufacturing and processing is the accessibility to reliable and consistent supplies of good quality raw materials, in particular raw milk. The shareholder members of CDC constitute approximately half of the total number of existing dairy farmers in the state of Western Australia. The membership base can be expanded and the existing members also have the capability to increase their production volumes easily. As such, the volume of raw milk supplies can be increased significantly within a relatively short period of time and Challenge will have access to a very sizeable amount of raw milk for its manufacturing and processing operations. This unique arrangement gives Challenge a good competitive advantage especially at this time when world supplies of milk and dairy products are extremely tight with prices of such products rapidly rising because of increased demand in the Asian and global markets.

Western Australia is also one of the most attractive locations for producing milk for the regional markets. Cost of milk production is among the most competitive by world standards. Productivity and product quality are also one of the highest in the world. The close proximity of Western Australia to Asian markets also gives it the advantage of lower freight and transportation cost compared to the other milk producing regions.

The unique position of Challenge gives it a key advantage to develop, produce and sell unique products to the rapidly growing Asian markets, especially in Japan, China and South-east Asia.

# TRADING, DISTRIBUTION AND LOGISTICS

## BEN FOODS (S) PTE LTD ('BEN FOODS') AND BEN TRADING (M) SDN BHD ('BEN TRADING')

The Group's wholesale food distribution company, Ben Foods, is a leading distributor of a wide range of food and beverage products in Singapore, including meat (chilled and frozen), milk and dairy products, soups, pastry, confectionery, fruits, vegetables, spreads, wines and juices to a diverse range of customers such as fast-food chains, supermarkets, wholesalers, bakeries, independent retail outlets, hotels, restaurants, flight kitchens and sea vessels in Singapore.

In addition to third party agency products, Ben Foods has successfully developed its own proprietary brands such as Cowhead (milk and dairy products), Farmland (processed meat and foodstuff), Haton (seafood products) and Orchard Fresh (juices).

Ben Foods' established brand of Cowhead milk and dairy products are widely distributed in Singapore as well as in the region – the Philippines, Vietnam, Cambodia, Myanmar and Macau. Annual volume sold is more than 11 million litres and the milk raw material is sourced from renowned producers and manufacturers in Australia, New Zealand and South America. Cowhead products include fresh and full cream milk, UHT milk, condensed and evaporated milk, butter and cheddar cheese.

Ben Foods is continuing to strengthen its proprietary brands by launching new products such as Cowhead Fat Free High Calcium Slim milk and Farmland Starz potatoes.

2004 saw growth in terms of sales turnover. The Company expanded into new businesses such as fruits and vegetables as well as frozen pork. It also entered into new segments in the wine market. These new initiatives are showing promising results and should further strengthen the Company's position in the food industry.

During 2004, Ben Foods entered into an arrangement with Pinnacle Wine & Spirits whereby there was co-operation in marketing, logistics and distribution. Ben Foods is now one of the major suppliers of wines and spirits in Singapore. It now distributes more than 340 brands of wines and spirits and has increased its market share.

The operations of the Group's Malaysian distribution arm, Ben Trading, were adversely affected by the appreciation of foreign currencies vis-à-vis the Malaysian ringgit. The costs associated with Ben Trading's imports rose significantly and this affected margins despite the increase in overall turnover.

## SPICES OF THE ORIENT PTE LTD ('SOTO')

SOTO achieved increased sales due to higher export sales to the US, Europe, Australia and other Asean countries. However, there was pressure on margins due to higher raw material and production costs.

To complement its existing products which are popular in export markets, the Company has launched its range of wet sauces in late 2004.

## NCS COLD STORES (S) PTE LTD ('NCS')

NCS is the biggest cold store in Singapore with a total available storage space for 14,000 pallets. It is the only public cold store which provides multiple temperature storage rooms, from dry rooms to freezers, to suit the specific needs of its customers. The Company also provides integrated facilities such as container plug-in services, rooms for processing, repacking of cargoes and cargo deliveries. All these provide an efficient one-stop service for its customers' warehousing, storage and logistical needs.


In accordance with the listing rules as stated in the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), this Report describes the corporate governance processes and activities of QAF Limited ("QAF") and its subsidiaries ("the Group") with specific reference to the principles of the Code of Corporate Governance ("Code").

## Principle 1 : Board's Conduct of its Affairs

The Board of Directors of QAF ("Board") is scheduled to meet at least four times a year and as warranted by circumstances. For the financial year under review, the attendance of the directors of the Company ("Directors") at meetings of the Board and Board committees is as follows:

| Name | Board | | Audit Committee | | Nominating Committee | | Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| | No. of Meeting Held | No. of Meeting Attended | No. of Meeting Held | No. of Meeting Attended | No. of Meeting Held | No. of Meeting Attended | No. of Meeting Held | No. of Meeting Attended |
| Didi Dawis | 4 | 4 | NA | NA | 1 | 1 | 1 | 1 |
| Andree Halim | 4 | 4 | NA | NA | NA | NA | NA | NA |
| Tan Kong King | 4 | 4 | NA | NA | 1 | 1 | NA | NA |
| Phua Bah Lee | 4 | 3 | 4 | 3 | 1 | 1 | 1 | 1 |
| Tarn Teh Chuen | 4 | 4 | NA | NA | NA | NA | NA | NA |
| Derek Cheong Kheng Beng | 4 | 4 | NA | NA | NA | NA | NA | NA |
| Kelvin Chia Hoo Khun | 4 | 3 | 4 | 3 | NA | NA | 1 | 1 |
| Tan Hin Huat | 4 | 4 | 4 | 4 | NA | NA | NA | NA |

The Board arranges for telephonic-conferencing for any Director who is otherwise unable to be present physically at the meetings.

The Board is responsible generally for the broad business strategy and financial objectives of the Group, monitoring the performance of the Management, as well as providing oversight in the proper conduct of the Group's business. Specific matters which are referred to the Board for approval include the following:-

- Approval of periodic financial results announcement
- Approval of annual audited consolidated accounts for the Group and the Directors' Report thereto
- Approval of annual budgets for the Group
- Evaluating the adequacy of internal controls
- Assuming responsibility for corporate governance and compliances with the Companies Act and the rules and requirements of regulatory bodies
- Approval of major investment or divestment by the Group
- Approval of major funding proposal or bank borrowings
- Approval of major corporate restructuring
- Approval of interim dividends and proposal of final dividends for shareholders' approval
- Approval of issues of shares, warrants and any other equity or debt or convertible securities of the Company

Additionally, the Board delegates and entrusts certain of its functions and power to the Nominating, Audit and Remuneration Committees.

## Principle 1 : Board's Conduct of its Affairs (cont'd)

The Management (with the assistance of external professionals when necessary) furnishes the Directors with information concerning the changes in laws, regulations or accounting standards where they may be applicable to the Company and relevant in enabling the Directors to carry out their duties and responsibilities properly. The Group Managing Director briefs the Board at the beginning of each financial year on the general economy trend, specific industry factors and developments affecting the businesses of the Group and the Group's business outlook for the year.

## Principle 2 : Board Composition and Balance

The Board comprises eight Directors of whom three are executive Directors and five are non-executive Directors. The non-executive Directors are Mr Didi Dawis (the Chairman of the Board), Mr Andree Halim (Vice-Chairman of the Board), Mr Kelvin Chia Hoo Khun (chairman of Audit Committee), Mr Phua Bah Lee and Mr Tan Hin Huat.

The executive Directors are full-time employees of the Company, comprising Mr Tan Kong King (the Group Managing Director), Ms Tarn Teh Chuen (the Head of Treasury) and Mr Derek Cheong Kheng Beng (the Head of Corporate Development).

The Board considers Mr Phua Bah Lee, Mr Kelvin Chia Hoo Khun and Mr Tan Hin Huat, who are non-executive directors, to be independent Directors. The criterion of independence is based on the principles stated in Paragraph 2.1 of the Code. The Board also considers Mr Didi Dawis, a substantial shareholder of the Company who is deemed interested in approximately 10.42% of the issued shares of the Company, as independent for the purpose and intent of the Code. As aside from his shareholdings, neither Mr Didi Dawis nor his associates have any business transactions or relationship whatsoever with the Company, its related companies or its officers which could interfere with the exercise of his independent business judgement with a view to the best interests of the Company.

Mr Andree Halim is considered as a non-independent Director in view of him having a controlling stake in the share capital of the Company.

The Board is of the view that the current board size of eight directors is appropriate and effective taking into account the nature and scope of the Group's operations and the corporate goals and objectives the Group strives to achieve. As a group, the Board members bring on the Group invaluable knowledge and experience in accounting, finance, legal, business strategies, as well as cross-border investment insights.

## Principle 3 : Role of Chairman and Chief Executive Officer ("CEO")

There is a clear division of roles played by the independent Directors (who are non-executive) and the executive Directors (who are involved in the running of the Company and/or its subsidiaries), which ensures that there is a balance of power and authority at the top of the Group. To enhance the balance of power, the posts of Chairman and the Group Managing Director are kept separate and these positions are held by Mr Didi Dawis and Mr Tan Kong King respectively, who are not related to each other.

The Board delegates the day-to-day management of the Group to the Group Managing Director.

The Chairman, in addition to his duties as non-executive director of the Company, is responsible for the effective working of the Board as a whole.

### Principle 4 : Board Membership

The Nominating Committee comprises two non-executive Directors and one executive Director, namely Mr Didi Dawis, Mr Phua Bah Lee and Mr Tan Kong King.

The Nominating Committee is charged with the responsibility of sourcing and recommending suitable candidates for the Board's approval if there should be a need to appoint new directors whether to fill vacancies or as additional directors. Any recommendation of the Nomination Committee is subject to the Board's final approval, whose decision shall be final and binding.

The Nominating Committee is also empowered by the Board to decide on the re-appointment of members of the Board subject to retirement by rotation. Article 93 of the Company's Articles of Association requires one third of the Board (other than the Group Managing Director) to retire by rotation at every Annual General Meeting of the Company ("AGM").

In deciding whether to nominate Directors to stand for re-election at each AGM, the Nominating Committee will assess and evaluate the contribution by each individual Director to the effectiveness of the Board. The review parameters for evaluating each Director, include, among others, attendance at board/committee meetings, participation and involvement in decision-makings in meetings and knowledge and experience of the Directors which are relevant to the operations and conduct of businesses of the Group.

In reviewing whether Directors with other board representations are able to spend sufficient time and attention on the Company's affairs, the Nominating Committee takes into consideration the parameters as above described and is satisfied that such board representations have not compromised the Directors' ability to carry out their duties adequately.

The Nominating Committee also determines the independence of Directors annually in accordance with the guidelines set out in the Code.

### Principle 5 : Board Performance

The Board takes the view that all its members should be involved in the assessment of the effectiveness of the Board as a whole and the setting of performance assessment criteria.

The Board believes that in evaluating its effectiveness, both quantitative and qualitative criteria of a long-term perspective ought to be taken into account. In reviewing its performance, the Board gives due consideration to the financial performance of the Group (with indicators such as its long-term revenue or profit trend and/or such other appropriate indicators depending on the nature and scope of the Group's business from time to time); the business expansion and growth potentials brought about by the Board in setting the strategic directions of the Group; and the effectiveness of the Board in redefining corporate strategies in a changing business environment and in steering the Group towards the objectives set, all of which should form part and parcel of the bases for sustaining long-term wealth and value in the Company.

### Principle 6 : Access to Information

In order to ensure that the Board is able to fulfil its responsibilities, the Management provides all the Board members with the Group's monthly management accounts. Detailed Board papers are prepared for each meeting of the Board and are normally circulated two days in advance of each meeting. The Management is required to ensure that the Board papers contain adequate information pertaining to the agenda (including, as the case may be, budgets, forecast, financial results and explanatory notes on variances) so as to enable the Directors to be properly briefed on issues to be considered at Board meetings.

## Principle 6 : Access to Information (cont'd)

The Directors have separate and independent access to the Company Secretary. The Company Secretary attends all Board and Committee meetings and is responsible to ensure that minutes of meetings are properly and fairly recorded, rules on board procedures are observed and relevant statutes and regulations which are applicable to the Company or the Directors are complied with.

The Company Secretary is also tasked to co-ordinate communications for the non-executive Directors with the chief executive officers/general managers of the operating subsidiaries, the financial controllers and other senior executives as and when required by the non-executive Directors. They are encouraged to speak to the individual officer-in-charge to seek additional information as they may deem fit.

If Directors, whether as a group or individually, need independent professional advice, the Company Secretary will seek the appropriate external advice. The cost of such professional advice will be borne by the Company.

## Principle 7 : Procedures for Developing Remuneration Policies

## Principle 8 : Level and Mix of Remuneration

The Remuneration Committee comprises three Directors, all of whom are non-executive Directors, namely Mr Didi Dawis, Mr Phua Bah Lee and Mr Kelvin Chia Hoo Khun.

The Remuneration Committee is delegated the tasks of reviewing the remuneration packages of the Group Managing Director and the other executive Directors to ensure that the packages are competitive and sufficient to attract, retain and motivate executive directors of the required quality to run the Company and the Group successfully. The Remuneration Committee also reviews the executive Directors' compensation annually and determines appropriate adjustments.

The Board believes that the remuneration programme for the key executives of the Group (other than the executive Directors) is best set and determined by the Management. The Board noted that it is the Group's policy to set a level of remuneration that is appropriate to attract, retain and motivate all competent and loyal key executives. Their remuneration generally include a fixed as well as a variable component. The fixed component is the base salary and variable component is in the form of a variable bonus linked to the individual's or the relevant subsidiary's performance. Annual adjustments to the remuneration are made taking into account the performance of the Group and/or of the relevant subsidiary, the prevailing market pay, the seniority and level of responsibilities of the individual as well as his/her performance. Another element of the variable component for the key executives is the grant of share options under the QAF Limited Share Option Scheme 2000 ("Scheme 2000").

The Remuneration Committee adopts similar policy and approach as outlined in the paragraph above when reviewing the remuneration of the executive Directors.

Most of the Remuneration Committee members have certain degree of experience in managing firms or companies. The Remuneration Committee is encouraged to seek external professional help whenever it deems necessary.

The recommendations of the Remuneration Committee are subject to the final decision and approval of the Board. Any Directors who may have an interest in the outcome of the Board decisions are required to abstain from participation in the approval process.

### Principle 8 : Level and Mix of Remuneration (cont'd)

All executive Directors do not receive any directors' fees. Non-executive directors are paid a basic fee and an additional fee for serving as the Chairman of the Board or members of the Audit Committee. Such fees are subject to approval by the shareholders of the Company as a lump sum payment at each AGM of the Company. The Company holds the view that, at this point in its development, the interests of maintaining the objectivity and independence of the non-executive Directors is best served by a cash-based fixed fees at a rate broadly in line with those that are adopted by a majority of other listed companies.

The grant of share options pursuant to the Scheme 2000 is employed by the Group to provide long-term incentives for its executives. The Share Option Committee was established in year 2000 comprising Mr Didi Dawis, Mr Phua Bah Lee and Mr Tan Kong King to administer the Scheme in accordance with the rules as approved by shareholders of the Company in a general meeting held on 12 May 2000. The objectives of the Scheme are to motivate the executives (including the executive Directors) of the Group to optimise their performance standards and efficiency and to retain key executives whose contributions are important to the long term growth and profitability of the Group.

The limits on the maximum number of shares over which options may be granted to any one individual pursuant to the Scheme 2000 shall be determined at the absolute discretion of the Share Option Committee.

No member in the Share Option Committee is allowed to participate in any decisions over his own grant of options. Non-executive Directors are not eligible to participate in the Scheme 2000.

### Principle 9 : Disclosure on Remuneration

The following tables reflect the breakdown of Directors' remuneration and the remuneration of the top 5 executives of the Group (in addition to the executive Directors) for year 2004:-

(1) Table shows breakdown of executive Directors' Remuneration (in percentage terms):

| | Salary | Bonus | Other Benefits* | Total |
|---|---|---|---|---|
| **$1,000,000 to below $1,250,000** | | | | |
| Tan Kong King | 70% | 27% | 3% | 100% |
| **$250,000 to below $500,000** | | | | |
| Tarn Teh Chuen | 78% | 22% | - | 100% |
| Derek Cheong Kheng Beng | 73% | 24% | 3% | 100% |

*excluding share options which are disclosed in the Directors' Report

(2) Table shows non-executive Directors' Fees:

| | |
|---|---|
| **$45,000 and below** | |
| Didi Dawis | Chairman of the Company |
| **$30,000 and below** | |
| Andree Halim | Vice-Chairman of the Company |
| Phua Bah Lee | Member of the Board and Audit Committee |
| Kelvin Chia Hoo Khun | Member of the Board and Audit Committee |
| Tan Hin Huat | Member of the Board and Audit Committee |

## Principle 9 : Disclosure on Remuneration (cont'd)

(3) Table shows the gross remuneration received by the top five executives of the Group:

| Number of the top 5 executives of the Group in remuneration bands:- | |
|---|---|
| $250,000 and above | 4 |
| Below $250,000 | 1 |
| Total | 5 |

The Group does not employ any immediate family member of a Director or the Group Managing Director.

## Principle 10 : Accountability

The Directors fully recognise the principle that the Board is accountable to the shareholders while the Management is accountable to the Board.

The Company has adopted quarterly reporting since 1 January 2003. In presenting the annual financial statements and quarterly announcements to shareholders, the Board has and will continue to provide the shareholders with a balanced and understandable assessment of the Company's and the Group's performance, position and prospects.

Management currently provides the Board with appropriately detailed management accounts of the Company and the Group on a monthly basis.

## Principle 11 : Audit Committee

## Principle 12 : Internal Controls

## Principle 13: Internal Audit

The Audit Committee of the Company comprises three non-executive Directors (Mr Phua Bah Lee, Mr Kelvin Chia Hoo Khun and Mr Tan Hin Huat) all of whom are independent. All its members are appropriately qualified to discharge their responsibilities. Both Mr Phua Bah Lee and Mr Tan Hin Huat hold a degree in Bachelor of Commerce and Mr Kelvin Chia is a senior practising lawyer.

Mr Kelvin Chia has assumed the chairmanship of the Audit Committee with effect from 1 January 2004.

The Audit Committee performs the functions set out in the Companies Act and the Code. It has written terms of reference which sets out its authority and duties. Some of its responsibilities include:

- To review the audit plans of the Company's external auditors and their evaluation of the systems of internal accounting controls arising from their audit examination
- To review the external auditors' report (including assistance given by the Company's officers to the external auditors)
- To review the financial statements of the Company and the consolidated financial statements of the Group before their submission to the Board
- To review periodic results announcements of the Company before their submission to the Board
- To review interested person transactions pursuant to the Listing Manual

**Principle 13: Internal Audit (cont'd)**

- To review annually the independence and objectivity of the external auditors, taking into consideration the non-audit services provided to the Company and to recommend on the appointment or re-appointment of the external auditors
- To review scope and results of the internal audit procedures
- To review the periodic findings of the internal auditors and with the assistance of the internal auditors, conduct an annual review of the effectiveness of the Group's material internal controls

The Audit Committee is empowered by its written charter to investigate any matter relating to the Group's accounting, auditing, internal controls and financial practices brought to its attention. It has full access to and co-operation of the Management, including the internal auditors, and has full discretion to invite any Director and executive officer to attend its meetings.

The Group has an internal audit team of two internal auditors who are members of the Institute of Certified Public Accountants of Singapore and the Institute of Internal Auditors. Their primary line of reporting is to the chairman of the Audit Committee. The Audit Committee ensures that the team is adequately resourced. It also reviews and approves the annual internal audit plan proposed by the team. The internal auditors, like the external auditors, report independently their findings and recommendations to the Audit Committee.

The review of the Group's systems of internal control is a continuing process. The system of internal control adopted by the Group is designed to manage rather than eliminate the risk of failure to achieve business objectives. Based on the audit reports and management controls in place, the Audit Committee is satisfied that there are adequate material internal controls in place for the Group.

The Board acknowledges its responsibility overall for ensuring that there is a sound system of internal control to safeguard the shareholders' investments and Company's assets, and is satisfied that there has been no significant breakdown or weaknesses in the material aspect of the internal controls for the Group.

**Principle 14 : Communication with Shareholders**

**Principle 15 : Greater Participation by Shareholders**

The Company believes in timely and transparent corporate disclosure as prescribed in Appendix 7.1 (corporate disclosure policy) of the Listing Manual. Shareholders are informed of all major developments that affect the Group. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly to all others as soon as practicable. Communication is made through:

- annual reports that are prepared and sent to all shareholders. The Board ensures that the annual report includes key relevant information about the Company and the Group, including, inter-alia, a review of the Group's major operations and their general outlook, disclosures required by the Companies Act, Listing Manual, and the Accounting Standards;
- quarterly financial announcements on the financial performance of the Group for that period and operation reviews;
- circulars for extraordinary general meetings;
- announcements and disclosures to the SGX-ST via SGXNET; and
- the Company's website at http://www.qaf.com.sg at which our shareholders can access information on the Group.

### Principle 15 : Greater Participation by Shareholders (cont'd)

The shareholders of the Company are encouraged to attend the AGMs. At AGMs, the shareholders are given the opportunity to air their views and ask questions regarding the Company and the Group. The notice of the AGM is sent to our shareholders at least 14 days before the meeting. Directors and members of the respective Committees are normally present and available to address questions relating to the work of their Committees at general meetings. Furthermore, the external auditors are present to assist the Board in addressing any relevant queries raised by the shareholders.

Each item of special business in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting.

To facilitate voting by shareholders, the Articles of Association of the Company allow its shareholders to appoint one or two proxies to attend and vote on their behalf.

### Dealings in Securities

The Company has an internal code on dealings in the shares of the Company by key executives of the Group, which is modelled after the SGX's Best Practices Guide. The internal code is issued to all Directors of the Company and the relevant executives of the Group before the start of each prohibition period to remind Directors and relevant executives to refrain from dealing in the shares of the Company two weeks prior to release of the quarterly and four weeks prior to the release of the full year announcements of the Group's financial results.

## Rule 1207(4)(c) : Information relating to the background of key management staff

**Siew Teck Woh,** aged 63, was made the Managing Director of Gardenia Foods (S) Pte Ltd in 1998, the Gardenia Bakery operation of the QAF Group in Singapore. Dr Siew spent a large part of his early career in the Primary Production Department ("PPD" and now called the Agri-Food & Veterinary Authority) of the Singapore Government including being the Director of the PPD for 9 years. During his tenure with PPD, Dr Siew was involved in the strategic formulation and implementation of various agri-business and livestock development programmes in Singapore. After leaving the PPD, Dr Siew worked with the KMP Pte Ltd group of companies for about 13 years. He was in charge and was instrumental in setting up an integrated chain of livestock activities for the KMP Group. Dr Siew was a Columbo Plan Scholar and graduated with a Bachelor of Veterinary Science degree from the University of Queensland, Australia. He was awarded an Honorary Doctorate in Veterinary Science by the University of Queensland in 1994.

**Nigel Smith,** aged 56, is the chief executive officer of QAF Meat Industries Pty Ltd ("QAF Meats"), a wholly-owned subsidiary of the QAF Group. He has the responsibility of overseeing the entire integrated pork production business carried out by the QAF Meats Group in Australia as well as the dairy farm in Cobram, Victoria, that was acquired by Oxdale Dairy Enterprise, a wholly-owned subsidiary of the QAF Group. Mr Smith has been with the QAF Meats Group for over 30 years. Prior to him assuming the position as chief executive officer of the QAF Meats Group, he was in various senior executive positions covering pig production, sales and marketing, and meat processing. He has played a major role in developing the QAF Meats Group from a small pig producer to the largest fully integrated operator in Australia and one of the largest in the world. Mr Smith is currently the deputy chairman of Australia Pork Limited which is the industry body responsible for marketing, research and policy for pork producers in Australia. He graduated with a Diploma of Agricultural Science from Dookie Agricultural College, Australia.

**Yap Kim Shin,** aged 53, is the chief executive officer of the Gardenia Bakery group of companies in Malaysia ("Gardenia Malaysia Group"). Gardenia Malaysia Group is the major bread producer in Malaysia, "Gardenia" was recognised as one of the superbrands in Malaysia by the Superbrand Council in 2002. Mr Yap has been with the Gardenia Malaysia Group since 1987, contributing significantly to the success of the "Gardenia" products in Malaysia. Prior to joining Gardenia Malaysia, he had worked with Cold Storage Malaysia and IAC (M) Sdn Bhd. Mr Yap is a Monash Science graduate and has completed a post graduate programme in Marketing Management in London.

**Simplicio P. Umali, Jr,** aged 52, assumed the position as the general manager of the Gardenia Bakery operation of the QAF Group in the Philippines in August 1999. Prior to him taking charge of the Gardenia Bakery operations in the Philippines, he was the chief executive officer of Dutch Boy (Philippines) Inc., a major paint manufacturer, and the country manager of Hoechst Marion Roussel (Philippines), a pharmaceutical company. Mr Umali has extensive experience in marketing, having taken charge of the marketing function in his previous employment for over 10 years; he was also a part-time assistant professor and lecturer of Marketing at De La Salle University in the Philippines for 12 years. He is a graduate of Business Administration (majored both in Finance and Marketing) and holds a Master of Business Administration from the University of the Philippines.

**Philip Lee Tuck Wah**, aged 55, was appointed the chief executive officer for the trading and distribution arm of the QAF Group - Ben Foods since 1989. As the key subsidiary of the QAF Group engaging in the trading and distribution of consumer food products, Ben Foods provides marketing and sourcing support to other subsidiaries within the QAF Group. In 1997, Mr Lee was tasked to take charge of the warehousing logistics and spices manufacturing operations of the QAF Group. Mr Lee has close to 29 years of experience in the marketing of food and beverages to-date. Prior to joining Ben Foods, he had worked with Allied Chocolate Ltd (formerly a listed company in Singapore) and Sime Darby Singapore. Mr Lee has a Bachelor degree from the University of Singapore in Social Science (Hons).

**Derrick Lum Weng Piu,** aged 43, is the group financial controller for the QAF Group. He has been with the QAF Group since 1997 and was made the group financial controller in October 1999. Mr Lum has 19 years of experience in the area of accounting and finance. Prior to joining QAF, he was the regional controller for a multi-national and a Singapore-listed group. Mr Lum is a certified public accountant of the Institute of Certified Public Accountants of Singapore as well as a chartered financial analyst of the CFA Institute. He also holds a Master of Business Administration from the United Kingdom.

**Rule 1207(4)(d) : Information relating to risks**

1. Disease Outbreak and Farm Contamination

The Primary Production Division of the Group consists of the QAF Meats Group ('QAF Meats'), an integrated producer of meat, which operates eight company-owned farms and 52 Contract Grower sites spread out across the Australian states of Victoria and New South Wales. QAF Meats has approximately 52,000 breeder pigs and a total population of more than 500,000 pigs. In addition, the Group has purchased and is operating a dairy farm at Cobram with approximately 1,000 herds of dairy cows.

All livestock face potential health epidemic outbreaks. Infectious diseases can be spread by either animal contact or farm contamination. Livestock farming is the mainstay of QAF Meats. If a health epidemic should erupt in the farms, depending on the locality and proximity of the contaminated areas, various animals would have to be culled and the operations shut down. In recent years, there had been outbreaks which caused massive culling of pigs and closures of farms in many countries in Asia. The pig farming industries in these countries have been adversely affected.

Although Australia is geographically isolated and has strict quarantine laws, there is no guarantee that the Group's livestock will not be affected by disease epidemics. QAF Meats has taken preventive measures of enforcing the highest standards of quarantine and by geographically spreading out its farms to prevent cross contamination. The 8 QAF Meats-owned farms and the 52 Contract Grower farms are well spaced out across the two Australian states. Within each farm, large tracts of buffer land are also maintained which surrounds the production units and this minimises the probability of contamination from spreading between the different herds.

2. Regulatory Sanctions

(a) Meat Industry

QAF Meats is in the fresh meat industry, with vertically integrated operations ranging from the breeding and rearing of livestock, to the slaughtering and boning process, to the marketing and delivery of fresh products, and even the preparation of the stockfeed. These processes are regulated by numerous health and food safety organisations and subject to regulatory sanctions. In Australia, the meat industry is governed by the Australian Quarantine and Inspection Services ('AQIS') which is responsible for the registration of abattoirs for both the domestic and export markets. In terms of the export of meat, QAF Meats is subject to the regulations of foreign regulatory bodies in the territories in which it markets its meat products including the Agri-Food & Veterinary Authority in Singapore and the Livestock Industry Bureau of the Ministry of Agriculture, Forestry & Fisheries in Japan.

QAF Meats currently meets the regulatory requirements of the above organisations. However, as with all trade and exports in the fresh meat industry, regulatory requirements and sanctions may be imposed suddenly due to health, disease, environmental or other reasons. If such sanctions are imposed, QAF Meats' business will be affected and it may be forced to seek other markets for its products. Failure to seek other markets for its products on a timely basis or at all, will adversely affect the business, financial performance and position of the Group.

(b) Environment

QAF Meats is also regulated by the Victorian and New South Wales Environmental Protection Authorities ('EPAs'). In the ordinary course of business, large amounts of solid and liquid effluent are produced which need to be treated. As part of the obligations imposed by the EPAs, QAF Meats has undertaken irrigation development plans to apply treated abattoir and livestock effluent to agricultural land over the next few years. The EPAs could impose further mandatory requirements which could affect QAF Meats' business in future and have a negative impact on the Group's financial performance and position.

3. Cyclical, Seasonal and Varying Consumer Demand

The meat industry is firstly subject to the cyclical seasonal demand for certain types of meat. Consumer demand for meat could fluctuate due to seasonality, for example, surges in demand for particular cuts of meat during the Christmas season or the Chinese Lunar New Year festivities.

Further, the industry is also subject to varying consumer demand. This could be attributable to food safety considerations, such as the drop in meat sales in the aftermath of particular epidemic outbreaks. These fluctuations in demand and sales would impact QAF Meats in the relevant affected markets.

4. Competition

The markets that QAF Meats operates in are subject to occasional periods of oversupply. The latter can arise from a number of sources such as overproduction from local producers in Australia or 'dumping' of frozen imported products in the export markets.

However, QAF Meats' strategy is to maintain itself as one of the most efficient and competitive producers in the region through its production and technological expertise as well as its ability to achieve lower unit cost through economies of scale. Furthermore, QAF Meats targets the fresh meat market segments in Australia, Singapore and Japan which are not subject to competition from cheap imported frozen products. QAF Meats is also dominant in both the Australian domestic and export market and this should enable it to adjust its marketing strategies according to market competition.

The Group's bread manufacturing business is subject to direct competition from supermarket chain stores who manufacture their own in-house bread and bakery products under their own brand names for sale in their stores ("In-house Brands"). For example in Singapore, the Group's direct competitors in the bread manufacturing business include NTUC Fairprice Co-operative Ltd and the Cold Storage chain of supermarkets, both of which have their own In-house Brands. Although the Group's 'Gardenia' and 'Bonjour' brands are amongst the leading brands in the packaged loaf bread market in Singapore, such In-house Brands typically compete on low-pricing. In the event that the Group is unable to compete effectively and continuously attract and retain its customers, the Group's bread manufacturing business and operating results may be affected.

5. Employee Turnover/Union Risks

The Group's bakery operations require its production employees to work on shifts, which in most cases are 24 hours per day, and its sales and delivery staff (who deliver bakery products to customers such as supermarkets, convenience stores, petrol stations and provision shops) to work within a very tight time frame and mostly in the very early hours of the morning.

QAF Meats is also highly dependent on skilled staff to operate its feedmills, piggeries and meat processing plants. The nature of work at the piggeries and meat processing plant requires vocationally trained personnel and staff to work on shift systems to ensure maximum productivity and that the pigs are cared for to the highest standards.

Staff members in the bakery operations and QAF Meats are largely trained on-the-job. Any loss of staff or disruption in work would adversely affect the productivity and business of both the bakery operations and QAF Meats until suitable replacements are found and trained. Furthermore, occupational health and safety issues, equal opportunity issues, compensation and industrial relations issues could also result in industrial action and high employee turnover. Failure of the Group to retain its trained personnel and/or to find suitable replacements on a timely basis will be disruptive to its business operations.

6. Fluctuations in Raw Material Prices

The prices of raw material costs affect the livestock farming and meat industries. Such industries are subject to swings in production costs determined largely by grain prices. Grain prices fluctuate depending on the farming season's weather, quality and yield of crop, and such prices will in turn affect the costs of production of animal feed and ultimately production cost per animal. As QAF Meats purchases the bulk of its grain at the harvest season, any price fluctuations of raw agriculture produce at that point will therefore affect production costs which QAF Meats may not be able to offset commensurately by higher selling prices of its meat products. This will have an impact on QAF Meats' overall business profitability.

## 6. Fluctuations in Raw Material Prices (cont'd)

To some extent, the above fluctuations in raw material grain prices particularly wheat prices will also affect flour prices. The latter will lead to increases in production costs of the bakery operations which may not be able to raise selling prices of their bakery products adequately to offset the full impact of the rise in production costs.

## 7. Fluctuations in Energy Costs

Energy costs are subject to global economic and political developments which are largely outside of the Group's control. Bakery products are delivered by a fleet of Company-owned delivery vehicles in the early morning, seven days a week within a tight time frame to customers so as to ensure freshness. QAF Meats exports its fresh chilled meat products by refrigerated containers on board commercial jet airlines. Distribution costs will increase significantly in the event of the escalation of crude oil prices.

The Group can only mitigate distribution cost increases through efficient logistics planning and controls to some extent.

## 8. Financial Risks

(a) Credit Risk

In the normal course of business, the Group sales do involve the extension of credit to customers such as supermarkets, convenience stores, petroleum companies, wholesalers, retailers and food service and catering operators. However, there are no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents which management deems adequate to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

(c) Foreign currency risk

The Group operates within the Asia Pacific region and companies within the Group maintain their books and records in their respective measurement currencies. The Group’s accounting policy is to translate the profits and losses of overseas companies using the weighted average exchange rates. Net assets denominated in foreign currencies and held at year end are translated into Singapore dollars, the Group’s reporting currency, at year end. Fluctuations in the exchange rate between the measurement currency of the subsidiary companies and Singapore dollars will therefore have an impact on the Group. Further, there is no assurance that the Group will be able to maintain its financial performance and position in the event of long term unfavourable movement in exchange rates. As such, significant fluctuations in foreign exchange rates would have an impact on the financial performance and position of the Group.

(d) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's short-term and long-term bank borrowings. The interest rates on such obligations are fixed at the prevailing market rates as and when they fall due for rollover. The period for rollover is between one to six months. An increase in the prevailing interest rates will result in an increase in the interest expense of the Group and this may have an impact on the financial performance or position of the Group.

(e) Share Price Fluctuation Risks

The Group has an investment portfolio which substantially comprises listed shares on the SGX-ST. Share prices of such listed companies are subject to fluctuations due to various reasons including developments and volatility in the capital markets or market reactions to reported financial results. Any unfavourable movements in the share prices of such listed companies will adversely affect the valuation of QAF’s investment portfolio.

Additionally, listed companies may, from time to time, carry out fund raising exercises by way of rights or otherwise, which may have an impact on the share price of such listed companies and indirectly affect the valuation of QAF’s investment portfolio.

### Rule 907 : Interested Person Transactions for financial year 2004

| Name of Interested Person | Aggregate value of all interested person transactions during the financial year under review (excluding transactions conducted under Shareholders' Mandate pursuant to Rule 920 of the SGX Listing Manual) | Aggregate value of all interested person transactions conducted under Shareholders' Mandate pursuant to Rule 920 of the SGX Listing Manual |
|---|---|---|
| P.T. Indofood Sukses Makmur | $61,047 | $31,370 |
| KMP Properties Pte Ltd | $25,600 | $12,800 |

The Shareholders' Mandate granted by members of the Company pursuant to Chapter 9 of the Listing Manual at the extraordinary general meeting held on 29 May 2003 had expired on 30 April 2004 without renewal.

The Interested Persons of the above transactions were the associates (as defined in the Listing Manual) of Mr Andree Halim (a controlling shareholder of the Company), being companies in which he and his immediate family together (directly or indirectly) have an interest of 30% or more.

### Rule 1207(8) : Material contracts of the issuer and its subsidiaries

Save for the transactions entered into with the Interested Persons under the Shareholders' Mandate as disclosed in the paragraph above, there were no material contracts (or loans) entered into by the Company and/or its subsidiaries with the directors or chief executive officer or substantial shareholders of the Company which were still subsisting at the end of the financial year under review, or if not then subsisting, entered into since the end of the previous financial year.

### Rule 1207(9)(E) – Minimum percentage of shares held by the public

Based on the computation that the various substantial shareholders of the Company hold in aggregate approximately 71.5% of the stock units of the Company (see page 102 of the Annual Report), the Company confirms that at least 10% of its listed equity stocks are held by the public.

### Rule 1207(6) – Non Audit Services of Auditors

The non-audit fees paid by the Group to auditors, Ernst & Young, in FY2004 amounted to approximately $99,000. The Audit Committee has undertaken a review of such non-audit services provided and in the Audit Committee's opinion they would not affect the independence of the auditors.

## Financial Statements

## Report of the Directors

The directors have pleasure in presenting their report together with the audited financial statements of QAF Limited (the "Company") and its subsidiary companies (the "Group") for the financial year ended 31 December 2004.

## Directors of the Company

The directors of the Company in office at the date of this report are :-

| | |
|---|---|
| Didi Dawis | (Chairman) |
| Andree Halim | (Vice-Chairman) |
| Tan Kong King | (Group Managing Director) |
| Phua Bah Lee | |
| Tarn Teh Chuen | |
| Derek Cheong Kheng Beng | |
| Kelvin Chia Hoo Khun | |
| Tan Hin Huat | |

Save as disclosed and stated below, no directors who held office at the end of the financial year, have, according to the register required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in the stock units or convertible securities of the Company :-

| Name of director | Direct interest At beginning of the year | Direct interest At end of the year | Deemed interest At beginning of the year | Deemed interest At end of the year |
|---|---|---|---|---|
| **Number of stock units of $0.40 each** | | | | |
| Didi Dawis | 3,437,000 | 3,437,000 | 42,383,712 | 42,383,712 |
| Phua Bah Lee | – | – | 25,000 | 25,000 |
| Tan Kong King | 400,000 | 1,375,000 | – | – |
| Andree Halim | 187,194,152 | 244,492,690 | – | – |
| Tarn Teh Chuen | – | 287,500 | – | – |
| **Number of QAF Limited Share Options to subscribe for shares in the Company** | | | | |
| Tan Kong King | 1,100,000 | 1,300,000 | – | – |
| Tarn Teh Chuen | 710,000 | 730,000 | – | – |
| Derek Cheong Kheng Beng | – | 200,000 | – | – |
| **Number of Warrants 2009 to subscribe for shares in the Company** | | | | |
| Andree Halim | – | 56,898,538 | – | – |
| Tan Kong King | – | 675,000 | – | – |
| Tarn Teh Chuen | – | 57,500 | – | – |

There was no change in any of the abovementioned interests of the directors between the end of the financial year and 21 January 2005.

No director who held office at the end of the financial year had an interest in shares or debentures of the Company's subsidiary companies.

## Directors of the Company (cont'd)

Since the end of the previous financial year, no director has received or has become entitled to receive benefits under contracts required to be disclosed by Section 201(8) of the Singapore Companies Act, Cap. 50 except those disclosed in Note 6 to the financial statements.

Except for the share options and warrants as disclosed above, neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements, to which the Company is a party, whereby directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Share Options to subscribe for ordinary shares

(a) Share options under the QAF Limited Share Option Scheme 2000 (the "2000 Scheme")

(i) The 2000 Scheme was approved by the members of the Company at an Extraordinary General Meeting held on 12 May 2000. The total number of shares in respect of which options may be offered on any offering date, when added to the number of shares issued or issuable in respect of options under this Scheme shall not exceed 15% of the issued share capital of the Company on the day preceding that offering date.

The exercise price of each share in respect of an option granted may be (i) the average of the last dealt prices of the shares of the Company, as determined by reference to the Financial News or other publication published by the Singapore Exchange Securities Trading Limited, for the three consecutive trading days immediately preceding the date of grant of that option ("Market Price") or (ii) at a discount not exceeding 20% of the Market Price, but in any event no exercise price shall be less than the par value of the share.

An option granted without discount to the Market Price shall be exercisable from the 1$^{st}$ anniversary to the 10$^{th}$ anniversary of the offer date. An option granted at a discount to the Market Price shall be exercisable from the 2$^{nd}$ anniversary to the 10$^{th}$ anniversary of the offer date.

(ii) Disclosures pursuant to Rule 852 of the Listing Manual :

The 2000 Scheme is administered by the 2000 Share Option Committee with members appointed by the Board, comprising two non-executive directors (namely Mr Didi Dawis and Mr Phua Bah Lee) and one executive director (namely Mr Tan Kong King). Non-executive directors, controlling shareholders of the Company and their associates (as defined in the Listing Manual) are not eligible to participate in the 2000 Scheme. The directors of the Company who were granted options under the 2000 Scheme are as follows :

| Name of participant | Options granted during financial year under review | Aggregate options granted since commencement of the 2000 Scheme to end of financial year under review | Aggregate options exercised since commencement of the 2000 Scheme to end of financial year under review | Aggregate options outstanding as at end of financial year under review |
|---|---|---|---|---|
| Tan Kong King | 500,000 | 1,600,000 | 300,000 | 1,300,000 |
| Tarn Teh Chuen | 250,000 | 960,000 | 230,000 | 730,000 |
| Derek Cheong Kheng Beng | 200,000 | 200,000 | Nil | 200,000 |

None of the executive directors and employees of the Group who participated in the 2000 Scheme has received 5% or more of the total number of options available under the 2000 Scheme.

## Share Options to subscribe for ordinary shares (cont'd)

(b) Unissued ordinary shares under options as at 31 December 2004 comprise :

| | For ordinary shares of $0.40 each in the Company | Exercise price per share | Exercise period |
|---|---|---|---|
| QAF Limited Share Option Scheme 2000 | 2,005,000 | $0.630 | 26 May 2001 to 25 May 2010 |
| QAF Limited Share Option Scheme 2000 | 1,023,000 | $0.430 | 19 April 2002 to 18 April 2011 |
| QAF Limited Share Option Scheme 2000 | 2,632,000 | $0.555 | 5 April 2003 to 4 April 2012 |
| QAF Limited Share Option Scheme 2000 | 3,690,000 | $0.523 | 13 May 2005 to 12 May 2014 |

The holders of the QAF Limited Share Option have no right to participate by virtue of these options in any share issue of any other company in the Group.

## Audit committee

The audit committee performed the functions specified in the Companies Act. The functions performed are detailed in the Report on Corporate Governance.

## Auditors

The auditors, Ernst & Young, Certified Public Accountants, have expressed their willingness to accept re-appointment.

On behalf of the Board,

Andree Halim
Director

Tan Kong King
Director

Singapore
8 March 2005

We, Andree Halim and Tan Kong King, being two of the directors of QAF Limited, do hereby state that, in the opinion of the directors :

(i) the accompanying balance sheets, consolidated profit and loss account, consolidated statement of changes in equity and consolidated statement of cash flows together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the results of the business, changes in equity and cash flows of the Group for the year ended 31 December 2004, and

(ii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board,

Andree Halim
Director

Tan Kong King
Director

Singapore
8 March 2005

We have audited the accompanying financial statements of QAF Limited (the "Company") and its subsidiary companies (the "Group") set out on pages 45 to 97 for the year ended 31 December 2004. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

(a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2004 and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
Certified Public Accountants

Singapore
8 March 2005

## CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2004

(In Singapore dollars except earnings per share data)

| | Note | 2004 $'000 | 2003 $'000 |
|---|---|---|---|
| **Revenue** | 3 | 619,997 | 809,388 |
| **Cost and expenses** | | | |
| Cost of materials | | 367,323 | 568,864 |
| Staff costs | 4 | 127,746 | 139,832 |
| Amortisation and depreciation | 5 | 27,741 | 29,338 |
| Repairs and maintenance | | 15,930 | 15,013 |
| Operating lease rentals | | 3,931 | 18,339 |
| Other operating expenses | | 50,750 | 51,528 |
| **Total cost and expenses** | | 593,421 | 822,914 |
| **Profit/(loss) from operating activities** | 6 | 26,576 | (13,526) |
| Finance costs | 7 | (8,158) | (10,431) |
| Exceptional items | 8 | (1,866) | 32,973 |
| Share of profit/(loss) of associated and joint venture companies | | 650 | (496) |
| **Profit before taxation and minority interests** | | 17,202 | 8,520 |
| Taxation | 9 | (4,579) | 27,942 |
| Minority interests | | (2,262) | (3,871) |
| **Net profit for the financial year** | | 10,361 | 32,591 |
| Earnings per ordinary share of $0.40 each : | 10 | | |
| – Basic | | 2.9 cents | 9.6 cents |
| – Diluted | | 2.9 cents | 9.6 cents |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

(In Singapore dollars)

| | Note | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Livestock | 11 | 64,753 | 64,975 | – | – |
| Inventories | 12 | 69,959 | 54,260 | – | – |
| Trade receivables | 13 | 74,703 | 53,298 | – | – |
| Other receivables | 14 | 13,731 | 12,086 | 55,868 | 78,074 |
| Tax recoverable | | 2,124 | 1,924 | – | – |
| Short-term investments | 15 | 1,247 | 2,716 | – | – |
| Cash and deposits | 16 | 36,230 | 83,582 | 5,151 | 15,272 |
| | | 262,747 | 272,841 | 61,019 | 93,346 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 17 | 283,478 | 276,481 | 2,990 | 2,593 |
| Subsidiary companies | 18 | – | – | 266,136 | 229,483 |
| Associated companies | 19 | 10,657 | 2,483 | – | – |
| Joint venture company | 20 | 4,231 | 3,633 | – | – |
| Investments | 21 | 48,540 | 22,155 | 998 | 998 |
| Intangibles | 22 | 10,828 | 1,644 | 708 | 846 |
| Deferred tax asset | 26 | 2,543 | 1,884 | – | – |
| | | 360,277 | 308,280 | 270,832 | 233,920 |
| **Total assets** | | 623,024 | 581,121 | 331,851 | 327,266 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

(In Singapore dollars)

| | Note | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade payables | | 62,335 | 54,030 | 22 | 48 |
| Other payables | 23 | 36,594 | 26,604 | 4,887 | 2,012 |
| Short-term borrowings | 24 | 76,596 | 89,391 | 48,111 | 67,302 |
| Long-term loans and finance leases – current portion | 25 | 44,784 | 48,849 | – | – |
| Tax payable | | 3,792 | 4,803 | 876 | 966 |
| | | 224,101 | 223,677 | 53,896 | 70,328 |
| **Non-current liabilities** | | | | | |
| Other payables | 23 | 8,167 | 7,362 | 9,537 | 33,930 |
| Long-term loans and finance leases | 25 | 46,071 | 59,514 | – | – |
| Deferred taxation | 26 | 10,283 | 10,256 | 207 | 450 |
| | | 64,521 | 77,132 | 9,744 | 34,380 |
| **Total liabilities** | | 288,622 | 300,809 | 63,640 | 104,708 |
| | | 334,402 | 280,312 | 268,211 | 222,558 |
| **Capital and reserves** | | | | | |
| Share capital | 27 | 175,905 | 140,512 | 175,905 | 140,512 |
| Reserves | 28 | 132,516 | 123,455 | 92,306 | 82,046 |
| | | 308,421 | 263,967 | 268,211 | 222,558 |
| **Minority interests** | | 25,981 | 16,345 | – | – |
| | | 334,402 | 280,312 | 268,211 | 222,558 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

(In Singapore dollars)

| | Share capital $'000 | Share premium $'000 | Revaluation reserve $'000 | Capital reserve $'000 | Revenue reserve $'000 | Foreign currency translation reserve $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 31 December 2002 | 134,700 | 2,821 | 2,506 | 11,805 | 70,569 | (10,045) | 212,356 |
| Transfer from revaluation reserve to revenue reserve | – | – | (49) | – | 49 | – | – |
| Transfer to revenue reserves upon disposal of a subsidiary company | – | – | – | (3,251) | 3,251 | – | – |
| Transfer to capital reserve due to bonus shares issued by a subsidiary company | – | – | – | 8,402 | (8,402) | – | – |
| Exchange differences arising on consolidation | – | – | – | – | – | 17,007 | 17,007 |
| Net gain not recognised in the profit and loss account | – | – | (49) | 5,151 | (5,102) | 17,007 | 17,007 |
| Issuance of ordinary shares by exercise of Warrants 2003 | 5,800 | 2,170 | – | (721) | – | – | 7,249 |
| Issuance of ordinary shares by exercise of QAF Limited Share Options | 12 | 5 | – | – | – | – | 17 |
| Dividends | – | – | – | – | (5,253) | – | (5,253) |
| Net profit for the financial year | – | – | – | – | 32,591 | – | 32,591 |
| Balance at 31 December 2003 | 140,512 | 4,996 | 2,457 | 16,235 | 92,805 | 6,962 | 263,967 |
| Transfer from revaluation reserve to revenue reserve | – | – | (48) | – | 48 | – | – |
| Exchange differences arising on consolidation | – | – | – | – | 23 | (4,317) | (4,294) |
| Net loss not recognised in the profit and loss account | – | – | (48) | – | 71 | (4,317) | (4,294) |
| Issuance of ordinary shares by exercise of QAF Limited Share Options | 212 | 16 | – | – | – | – | 228 |
| Issuance of rights shares | 35,181 | 8,607 | – | – | – | – | 43,788 |
| Dividends | – | – | – | – | (5,629) | – | (5,629) |
| Net profit for the financial year | – | – | – | – | 10,361 | – | 10,361 |
| Balance at 31 December 2004 | 175,905 | 13,619 | 2,409 | 16,235 | 97,608 | 2,645 | 308,421 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2004

(In Singapore dollars)

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| **Cash flows from operating activities :** | | |
| Profit before taxation and minority interests | 17,202 | 8,520 |
| Adjustments for : | | |
| Depreciation of property, plant and equipment | 27,450 | 29,176 |
| (Gain)/loss from sale of property, plant and equipment | (1,589) | 25 |
| Property, plant and equipment written off | 2 | 574 |
| Share of (profit)/loss of associated and joint venture companies | (650) | 496 |
| Amortisation of intangible assets | 291 | 162 |
| Interest expense | 8,158 | 10,431 |
| Dividend and interest income | (1,708) | (939) |
| Loss on sale of long-term investments | – | 58 |
| Impairment loss on property, plant and equipment | – | 1,500 |
| Net gain on disposal of subsidiary companies | (1,334) | (36,673) |
| Impairment loss on long-term investments | 3,200 | 3,700 |
| Goodwill on acquisition of subsidiary companies | (276) | – |
| **Operating profit before working capital changes** | 50,746 | 17,030 |
| Increase in receivables | (16,401) | (408) |
| (Increase)/decrease in inventories and livestock | (9,555) | 7,314 |
| Increase in payables | 7,909 | 19,692 |
| Decrease/(increase) in short-term investments | 1,469 | (1,115) |
| Exchange differences | (1,735) | (3,945) |
| **Cash generated from operations** | 32,433 | 38,568 |
| Interest paid | (8,577) | (9,804) |
| Interest received | 1,406 | 899 |
| Income tax paid | (6,499) | (4,739) |
| **Net cash provided by operating activities** | 18,763 | 24,924 |
| **Cash flows from investing activities :** | | |
| Purchase of property, plant and equipment | (28,091) | (30,284) |
| Proceeds on sale of property, plant and equipment | 281 | 549 |
| Purchase of investments | (29,585) | (11,300) |
| Purchase of shares in an associated company | (17,211) | (7) |
| Dividend received from quoted investments | 302 | 40 |
| Increase in advances to associated companies | (473) | (154) |
| Proceeds from sale of long-term investments | – | 1,291 |
| Purchase of shares from minority shareholder of a subsidiary company | (373) | – |
| Net cash flow on disposal of subsidiary companies, net of cash disposed (Note A) | 3,870 | 37,915 |
| Purchase of trademarks | – | (741) |
| Acquisition of subsidiary companies, net of cash acquired (Note B) | (2,429) | – |
| **Net cash used in investing activities** | (73,709) | (2,691) |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

(In Singapore dollars)

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| **Cash flows from financing activities :** | | |
| Dividends paid during the year | (5,629) | (5,253) |
| Dividends paid to external shareholders of subsidiary companies | (1,664) | (559) |
| Net (repayment)/proceeds from short term borrowings | (11,030) | 12,424 |
| (Repayment of)/proceeds from bank borrowings | (18,099) | 9,098 |
| Proceeds from issuance of share capital | 44,016 | 7,266 |
| **Net cash provided by financing activities** | 7,594 | 22,976 |
| Net (decrease)/increase in cash and cash equivalents | (47,352) | 45,209 |
| Cash and cash equivalents at beginning of year (Note 30) | 83,582 | 38,373 |
| Cash and cash equivalents at end of year (Note 30) | 36,230 | 83,582 |

**Note A – Analysis of disposal of subsidiary companies**

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Property, plant and equipment | 2,925 | 39,198 |
| Associated companies | – | 1,248 |
| Investments | – | (77) |
| Inventories | – | 21,265 |
| Receivables | 3 | 5,042 |
| Cash and cash equivalents | 15 | 9,885 |
| Payables | – | (41,416) |
| Short-term loans | – | (4,000) |
| Provision for taxation | – | (584) |
| Deferred taxation | – | (1,298) |
| Foreign currency translation reserve | (392) | – |
| | 2,551 | 29,263 |
| Advances recoverable | – | (7,339) |
| Minority interests | – | (10,797) |
| Gain on disposal | 1,334 | 36,673 |
| Consideration | 3,885 | 47,800 |
| Cash and cash equivalents disposed | (15) | (9,885) |
| Net cash flow on disposal, net of cash and cash equivalents disposed | 3,870 | 37,915 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

(In Singapore dollars)

**Note B – Analysis of acquisition of subsidiary companies**

| | 2004<br>$'000 |
|---|---|
| Property, plant and equipment | 11,265 |
| Inventories | 5,922 |
| Receivables | 6,268 |
| Payables | (9,813) |
| Borrowings | (1,154) |
| Cash | 10,143 |
| Minority share of net assets of a subsidiary | (9,783) |
| Net assets acquired | 12,848 |
| Goodwill arising on acquisition | (276) |
| Cash paid | 12,572 |
| Cash and cash equivalents acquired | (10,143) |
| Cash flow arising from the acquisition | 2,429 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## 1. Corporate information

QAF Limited is a public limited liability company incorporated in Singapore. The registered address of QAF Limited is 150 South Bridge Road, #09-04 Fook Hai Building, Singapore 058727.

The principal activities of the Company are those of an investment holding and management company. The principal activities of the Group consist of the manufacture and distribution of bread, bakery and confectionery products; provision for warehousing logistics for food items; trading and distribution in food and beverages; production, processing and marketing of meat; feedmilling and sale of animal feeds and related ingredients; production, processing and sale of dairy products and investment holding.

## 2. Summary of significant accounting policies

### (a) Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Singapore Companies Act, Cap. 50.

The accounting policies have been consistently applied by the Company and Group and are consistent with those used in the previous year.

The financial statements have been prepared on a historical cost convention, modified by the revaluation of certain property, plant and equipment and valuation of the livestock at fair values.

The financial statements are presented in Singapore Dollars ($).

### (b) Basis of consolidation

The financial statements of the Group include the financial statements of the Company and all its subsidiary companies made up to the end of the financial year ended 31 December 2004. The accounting year of the Company and all its subsidiary companies ends on 31 December except for Challenge Australian Dairy Pty Ltd which has an accounting year ending 30 June. For purpose of consolidation, an audit was carried out for Challenge Australian Dairy Pty Ltd for the period from 18 October 2004 (date of acquisition by the Group) to 31 December 2004. The results of subsidiary companies acquired or disposed during the period are included in or excluded from the consolidated profit and loss account from the date of their acquisition or disposal. Acquisition of subsidiary companies is accounted for using the purchase method of accounting. Inter-company balances and transactions and resulting unrealised profits are eliminated in full on consolidation.

### (c) Foreign currencies

Transactions arising in foreign currencies during the year are translated into measurement currencies at rates closely approximating those ruling on the transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated into measurement currency at exchange rates ruling at the balance sheet date. All exchange differences arising from such translations are included in the profit and loss account. Exchange differences arising from long-term inter-company balances which are effectively part of the net investments are taken to the foreign currency translation reserve.

## 2. Summary of significant accounting policies (cont'd)

### (c) Foreign currencies (cont'd)

For inclusion in the consolidated financial statements, all assets and liabilities of foreign subsidiary companies and associated companies are translated into Singapore dollars at the exchange rates ruling at the balance sheet date and the results of foreign subsidiary companies and associated companies are translated into Singapore dollars at the average exchange rates. Exchange differences due to such currency translations are included in foreign currency translation reserve. On disposal of a foreign subsidiary company, such foreign currency translation reserve is recognised in the profit and loss account as a component of the gain or loss on disposal.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

### (d) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure for additions, improvements and renewals are capitalised and expenditure for maintenance and repairs are included in the profit and loss account. When assets are sold or retired, their cost and accumulated depreciation are removed from the balance sheet and any gain or loss resulting from their disposal is included in the profit and loss account.

Assets held under finance leases are depreciated over their estimated useful lives or terms of the leases, whichever is shorter.

### (e) Depreciation

Depreciation is not provided for freehold land and for construction-in-progress until it is completed and put into use.

Depreciation is calculated so as to write off the cost of other property, plant and equipment, including those held under finance leases, on a straight-line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are :

| | | % |
|---|---|---|
| Freehold buildings | - | 2.0 - 2.5 |
| Leasehold land and buildings | - | 2.0 - 6.0 |
| Leasehold improvements | - | 2 - 20 |
| Plant and machinery | - | 5 - 33 $^1/_3$ |
| Furniture, fittings and office equipment | - | 10 - 40 |
| Motor vehicles | - | 10 - 33 $^1/_3$ |

The useful life and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Fully depreciated assets are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

## 2. Summary of significant accounting policies (cont'd)

### (f) Associated and joint venture companies

The Group treats as associated companies those companies in which a long term equity interest of between 20 and 50 percent is held and over whose financial and operating policy decisions it has significant influence.

Companies in which the Group holds an interest on a long-term basis and are jointly controlled by the Group with one or more parties under a contractual agreement are treated as joint ventures.

Associated and joint venture companies are accounted for under the equity method whereby the Group's share of profits and losses of associated and joint venture companies is included in the consolidated profit and loss account. The Group's share of the post-acquisition reserves is included in the investments in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the companies concerned, made up to the end of the financial year of the Group. Where the accounting policies of associated and joint venture companies do not conform with those of the Group, adjustments are made on consolidation, if the amounts involved are considered to be significant to the Group.

### (g) Investments

Long-term investments, including investments in subsidiaries and associated companies in the financial statements of the Company, are stated at cost and provision is made for any impairment loss, determined on an individual basis.

Investments held as current assets are stated at the lower of cost and market value. Market value is the middle market price at the balance sheet date. Changes in market value are included in the profit and loss account.

### (h) Intangibles

**(i) Goodwill**
Goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets of subsidiary companies and associated companies when acquired. Positive goodwill is amortised through the consolidated profit and loss account on a straight line basis over its useful economic life up to a maximum of 20 years, determined on individual basis. Goodwill which is assessed as having no continuing economic value is written off immediately to the consolidated profit and loss account.

**(ii) Negative goodwill**
Negative goodwill arising on acquisition represents the excess of the fair value of the identifiable net assets acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over 10 years, the weighted average useful life of those assets that are depreciable or amortisable. Negative goodwill in excess of fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account.

## 2. Summary of significant accounting policies (cont'd)

### (h) Intangibles (cont'd)

#### (ii) Negative goodwill (cont'd)

Negative goodwill is presented in the same balance sheet classification as goodwill. With respect to associates, negative goodwill is included in the carrying value of the investment.

#### (iii) Trademarks

Costs relating to trademarks, which are acquired, are stated at cost less accumulated amortisation and impairment loss, if any. Trademarks are amortised through the profit and loss account on a straight line basis over a period of 20 years.

#### (iv) Others

Preliminary and pre-operating expenses, and research and development costs are expensed as incurred, except for development expenditure which are expected to generate future economic benefits. Such development expenditure are capitalised and amortised through the profit and loss account on a straight line basis over a period of 5 years upon commencement of operations.

### (i) Inventories

Raw materials, consumables, finished goods and spare parts are stated at the lower of cost and net realisable value. Cost is primarily determined on a weighted average basis or first-in-first-out basis for certain subsidiary companies, and includes all costs in bringing the inventories to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Net realisable value is the price at which the inventories can be realised in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from the existing state to a finished condition. Provision is made, where necessary, for obsolete, slow-moving and defective inventories.

### (j) Livestock

Livestock are stated at their fair value less estimated point-of-sale costs, except where the fair value cannot be measured reliably, in which case it will be stated at cost. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit.

Net increments or decrements in the fair value of livestock are included in the profit and loss account, determined as :

(a) the difference between the total fair value of the livestock recognised at the beginning of the financial year and the total fair value of the livestock recognised at the end of the financial year; and

(b) cost incurred during the financial year to acquire and breed livestock.

### (k) Trade and other receivables

Trade and other receivables, which generally have 30-60 day terms, are recognised and carried at original invoiced amount less provision for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off to the profit and loss accounts as incurred.

## 2. Summary of significant accounting policies (cont'd)

### (l) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the profit and loss account or treated as a revaluation decrease for assets carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

### (m) Trade and other payables

Liabilities for trade and other payables, which are normally settled on 30-90 day terms, are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

### (n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

### (o) Loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received, net of transaction costs associated with the loans or borrowings. After initial recognition, interest bearing loans and borrowings are measured at amortised cost, taking into account any discount or premium on settlement.

### (p) Share capital

Ordinary shares are classified as equity and recorded at the fair value of the consideration received by the Company. Dividends on ordinary shares are accounted for in the shareholders' equity in the period in which they are declared payable.

As and when warrants of the Company are exercised, the value of such warrants standing to the credit of the capital reserve account are transferred to the share premium account.

### (q) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria described below must also be met before revenue is recognised.

## 2. Summary of significant accounting policies (cont'd)

### (q) Revenue recognition (cont'd)

Revenue from the sale of goods and services are recognised upon passage of title and risks to the customer which generally coincides with their delivery and acceptance.

Rental and interest income is recognised on time proportion basis.

Dividend income is recorded gross in the profit and loss accounts in the accounting period in which the Group's right to receive payment is established.

Profits or losses on disposal of investments are included in the profit and loss account.

### (r) Income taxes

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses and unabsorbed capital allowances, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax losses and unused tax credits can be utilised.

At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Deferred tax assets and liabilities are offset against each other if they relate to the same tax authority and can be offset.

### (s) Borrowing costs

Interest on borrowings to finance the construction of properties and plants is capitalised. Interest is capitalised from the date work starts on the property to the date when substantially all the activities that are necessary to get the property ready for use are complete. Interest on other borrowings are recognised as expense in the period in which they are incurred.

## 2. Summary of significant accounting policies (cont'd)

### (t) Employee benefits

#### (i) Executives' Share Option Scheme

The Company has in place the QAF Limited Share Option Scheme 2000 for the granting of share options to eligible employees of the Group to subscribe for ordinary shares in the Company. When such options are exercised, the nominal value of the shares subscribed for is credited to the share capital account and the balance of the proceeds, net of any transaction costs, is credited to the share premium account. Details of the Scheme are disclosed in Note 31 to the financial statements.

#### (ii) Defined contribution/benefit plans

As required by law, the Group's companies in Singapore make contributions to the state pension scheme, the Central Provident Fund ("CPF"). Certain of the Group's companies outside Singapore make contributions to their respective countries' pension scheme. Such contributions are recognised as compensation expense in the same period as the employment that gives rise to the contribution.

For retirement benefit schemes, the cost of retirement benefit is determined using the accrued benefit valuation method. Contributions made to the scheme are included in the profit and loss account. Actuarial gains and losses are recognised as income and expenses when the cumulative unrecognised actuarial gains or losses exceed 10% of the obligation and fair value of plan assets. The gains or losses are recognised over the average remaining working lives of the employees participating in the scheme.

#### (iii) Employee entitlements

Liabilities for paid annual leave and sick leave are recognised and measured as the amount unpaid at the balance sheet date at current pay rates in respect of employees' services up to that date.
A liability for long service leave is recognised, on the basis of an estimation of the present value of the future cash outflows to be made in respect of services provided by employees up to the balance sheet date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates that match, as closely as possible, the estimated future cash outflows.

### (u) Finance leases

Finance leases, which effectively transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at amounts equal, at the inception of the lease, to the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period. Finance charges are charged directly to the profit and loss account.

### (v) Segment information

The Group's operating businesses are organised and managed separately according to the nature of their activities, namely food manufacturing, primary production, trading and logistics, investments and others. The Group operates in five main geographical areas, namely Singapore, Malaysia, Australia, China and the Philippines. Geographical segment revenue is based on geographical location of the customers. Geographical segment assets are based on geographical location of the Group's assets. Segment accounting policies are the same as the accounting policies described in Note 2 to the financial statements. Inter-segment sales are based on terms determined on a commercial basis.

## 3. Revenue

Revenue for the Group includes the invoiced value of goods sold and services rendered, less returns, discounts and goods and services tax, and excludes sales between Group companies.

| | Group | |
|---|---|---|
| | 2004 $'000 | 2003 $'000 |
| Sale of goods | 608,506 | 797,985 |
| Rental income from storage and warehousing facilities | 6,179 | 6,756 |
| Interest income from: | | |
| - Fixed deposits with financial institutions | 762 | 625 |
| - Advances to associated company | 225 | 274 |
| - Others | 419 | – |
| Gross dividends from quoted equity investments | 302 | 40 |
| Miscellaneous | 3,604 | 3,708 |
| | 619,997 | 809,388 |

## 4. Staff costs

| | Group | |
|---|---|---|
| | 2004 $'000 | 2003 $'000 |
| (a) Staff costs (including Executive Directors) : | | |
| - salaries, wages and other related costs | 117,875 | 128,545 |
| - CPF and contributions to other plans | 4,915 | 6,925 |
| - superannuation contributions | 4,956 | 4,362 |
| | 127,746 | 139,832 |

| | Group | |
|---|---|---|
| | 2004 | 2003 |
| (b) Number of employees as at 31 December | 4,143 | 4,032 |

## 5. Amortisation and depreciation

| | Group | |
|---|---|---|
| | 2004 $'000 | 2003 $'000 |
| Amortisation of intangibles (Note 22) | 291 | 162 |
| Depreciation of property, plant and equipment (Note 17) | 27,450 | 29,176 |
| | 27,741 | 29,338 |

## 6. Profit/(loss) from operating activities

| | Group 2004 $'000 | Group 2003 $'000 |
|---|---|---|
| Profit/(loss) from operating activities is stated after charging/(crediting) : | | |
| Auditors' remuneration : | | |
| - Auditors of the Company | 329 | 278 |
| - Other auditors | 311 | 262 |
| Professional fees for non-audit services rendered : | | |
| - by the auditors of the Company | 29 | 142 |
| - by other auditors | 70 | 146 |
| Fees and remuneration for the directors of the Company : | | |
| - fees | 132 | 119 |
| - remuneration | 1,582 | 1,661 |
| - contribution to the Central Provident Fund | 36 | 83 |
| Provision for/(writeback of) diminution in value of short-term investments | 286 | (159) |
| Loss/(gain) on sale of investments | 923 | (468) |
| Research and development cost | 6,807 | 10,366 |
| (Increase)/decrease in the fair value less estimated point-of-sale costs of livestock, net | (8,330) | 2,665 |
| Fees paid to a firm in which a director of the Company is a partner | 3 | 1 |
| Foreign exchange loss/(gain), net | 592 | (5,044) |

Remuneration of the Directors of the Company pursuant to Rule 1207(11) of the Listing Manual is as follows:

**Number of directors in remuneration bands**

| | 2004 | 2003 |
|---|---|---|
| $1,000,000 to below $1,250,000 | 1 | - |
| $750,000 to below $1,000,000 | - | 1 |
| $250,000 to below $500,000 | 2 | 3 * |
| Below $250,000 | 5 | 5 |
| Total | 8 | 9 |

* (inclusive of the remuneration of a director who resigned during the financial year ended 31 December 2003).

| | 2004 | 2003 |
|---|---|---|
| Executive directors | 3 | 4 * |
| Non-executive directors | 5 | 5 |
| Total | 8 | 9 |

* (including a director who resigned during the financial year ended 31 December 2003).

## 7. Finance costs

| | Group 2004 $'000 | Group 2003 $'000 |
|---|---|---|
| Interest expense on fixed term bank loans | 8,158 | 10,431 |

## 8. Exceptional items

| | Group 2004 $'000 | Group 2003 $'000 |
|---|---|---|
| Net gain on disposal of subsidiary companies | 1,334 | 36,673 |
| Impairment loss on cost of long-term investments | (3,200) | (3,700) |
| | (1,866) | 32,973 |

## 9. Taxation

| | Group 2004 $'000 | Group 2003 $'000 |
|---|---|---|
| Income tax (credit)/expense on the profit for the year: | | |
| - current tax | 5,293 | 7,762 |
| - deferred tax | (187) | (35,134) |
| | 5,106 | (27,372) |
| Over provision in respect of prior years : | | |
| - current tax | (396) | (377) |
| - deferred tax | (169) | (53) |
| | 4,541 | (27,802) |
| Share of taxation of associated and joint venture companies | 38 | (140) |
| Tax expense/(credit) | 4,579 | (27,942) |

## 9. Taxation (cont'd)

The income tax expense on the results of the Group and Company differ from the amount of tax determined by applying the Singapore statutory tax rate of 20% (2003 : 22%) to the profit before taxation due to the following factors :

| | Group | |
|---|---|---|
| | 2004 | 2003 |
| | $'000 | $'000 |
| Profit before taxation | 17,202 | 8,520 |
| Tax expense at statutory tax rate of 20% (2003 : 22%) | 3,440 | 1,874 |
| Adjustments : | | |
| Income not subject to tax | (2,439) | (7,909) |
| Expenses not deductible for tax purposes | 2,274 | 1,267 |
| Tax reliefs, rebates and incentives | (1,036) | (1,845) |
| Utilisation of tax benefits not recognised in previous years | (284) | (150) |
| Tax benefits not recognised in current year | 4,285 | 50 |
| Differences in effective tax rates in other countries | 1,514 | (2,873) |
| Overprovision in respect of prior years | (307) | (430) |
| Tax effect from the adoption of tax consolidation scheme by subsidiary companies in Australia | (2,351) | (17,809) |
| Effect of change in statutory tax rate | (258) | – |
| Others | (259) | (117) |
| Tax expense/(credit) | 4,579 | (27,942) |

A loss-transfer system of group relief (Group Relief Scheme) for companies was introduced in Singapore with effect from year of assessment 2003. Under the Group Relief Scheme, a company belonging to a group may transfer its current year unabsorbed capital allowances and current year unabsorbed trade losses to another company belonging to the same group, to be deducted against the assessable income of the latter company.

During the current financial year, a subsidiary company had transferred $275,465 (2003 : $210,990) of its unutilised capital allowances and $348,446 (2003 : nil) of its unutilised tax losses to the Company under the Group Relief Scheme.

As at 31 December 2004, the Company intends to transfer unutilised tax losses of $1,116,880 from a subsidiary company under the Group Relief Scheme, subject to compliance with the relevant rules and procedures and agreement of Inland Revenue Authority of Singapore.

Current year tax expense of the Company is net of the tax effect of the unutilised capital allowances and trade losses transferred.

After the transfer of unutilised capital allowances and trade losses as mentioned above, the Group has unutilised tax losses and capital allowances of approximately $24,496,000 (2003 : $1,877,000) and $675,000 (2003 : $1,211,000) respectively which can, subject to the provisions of relevant local tax legislation and subject to the agreement with the relevant tax authorities, be carried forward and utilised to set off against future taxable profits. The potential tax benefit arising from such unutilised tax losses and capital allowances has not been recognised in the financial statements due to the uncertainty of its recoverability.

## 10. Earnings per ordinary share of $0.40 each

The calculation of earnings per ordinary share of $0.40 each is based on the following figures :

| | Group 2004 $'000 | Group 2003 $'000 |
|---|---|---|
| **Group earnings used for the calculation of EPS :** | | |
| Profit for the financial year attributable to shareholders | 10,361 | 32,591 |
| **Number of shares used for the calculation of :** | '000 | '000 |
| (i) **Basic EPS** | | |
| Weighted average number of ordinary shares in issue | 358,963 | 338,834 |
| (ii) **Diluted EPS** | | |
| Weighted average number of ordinary shares in issue | 358,963 | 338,834 |
| Share options | 184 | 233 |
| Warrants 2009 | 4,028 | – |
| Adjusted weighted average number of ordinary shares | 363,175 | 339,067 |

Basic earnings per share is calculated on the Group profit for the financial year attributable to shareholders of the Company divided by the weighted average number of shares in issue during the year.

Diluted earnings per share is calculated on the same basis as basic earnings per share except that the weighted average number of ordinary shares outstanding during the year have been adjusted for the effects of all dilutive potential ordinary shares.

## 11. Livestock

| | Group 2004 $'000 | Group 2003 $'000 |
|---|---|---|
| Livestock : | | |
| - at fair value | 39,243 | 35,475 |
| - at cost | 25,510 | 29,500 |
| | 64,753 | 64,975 |

| | 2004 | 2003 |
|---|---|---|
| Physical quantity of pigs : | | |
| - Number of progeny | 451,676 | 429,545 |
| - Number of breeders | 69,251 | 68,186 |
| | 520,927 | 497,731 |

## 11. Livestock (cont'd)

The Group's livestock comprises progeny and breeder pigs owned by subsidiary companies. The progeny pigs are raised for slaughter and sale. The breeder pigs are held to produce further progeny pigs. The fair value was determined based on the actual selling prices approximating those at year end. Significant assumptions made in determining the fair value of the livestock are:

(i) Progeny pigs aged up to 17 weeks are valued at cost as no active or liquid markets exist for these pigs;

(ii) Progeny pigs aged 18 weeks and above are valued at fair value less estimated point-of-sale costs; and

(iii) Breeder pigs are valued at fair value less estimated point-of-sale costs.

Reconciliation of changes in the carrying amount :

| | Group | |
|---|---|---|
| | 2004 $'000 | 2003 $'000 |
| Balance at 1 January | 64,975 | 50,729 |
| Currency realignment | 95 | 15,054 |
| Increase due to purchases | 147,340 | 215,069 |
| Loss arising from changes in fair value less estimated point-of-sale costs attributable to physical changes | (226) | (3,574) |
| Gain arising from changes in fair value less estimated point-of-sale costs attributable to price changes | 8,556 | 909 |
| Decrease due to sales | (155,987) | (213,212) |
| Balance at 31 December | 64,753 | 64,975 |

## 12. Inventories

| | Group | |
|---|---|---|
| | 2004 $'000 | 2003 $'000 |
| At cost : | | |
| Raw materials | 37,074 | 30,729 |
| Finished goods | 3,917 | 13,708 |
| Spare parts and consumables | 1,693 | 1,131 |
| Work-in-progress | 13 | 24 |
| | 42,697 | 45,592 |
| At net realisable value : | | |
| Raw materials | 2,908 | 2,122 |
| Finished goods | 18,850 | 1,895 |
| Spare parts and consumables | 5,504 | 4,651 |
| | 27,262 | 8,668 |
| Total inventories at lower of cost and net realisable value | 69,959 | 54,260 |

## 12. Inventories (cont'd)

The carrying value of inventories include inventories determined by the following cost methods :

| | Group | |
|---|---|---|
| | 2004 | 2003 |
| | $'000 | $'000 |
| First-in-first-out | 12,193 | 10,021 |
| Weighted average | 57,766 | 44,239 |
| | 69,959 | 54,260 |
| Inventories are stated after deducting provision for obsolescence of | 1,068 | 448 |

Raw materials of the Group as at 31 December 2004 amounting to $26,900,000 (2003 : $21,902,000) have been charged to a bank in connection with credit facilities granted to a subsidiary company.

## 13. Trade receivables

| | Group | |
|---|---|---|
| | 2004 | 2003 |
| | $'000 | $'000 |
| Trade debtors | 77,032 | 56,102 |
| Less : Provision for doubtful debts | (2,329) | (2,804) |
| | 74,703 | 53,298 |

Movements in provision for doubtful debts are as follows :

| | | |
|---|---|---|
| Balance at beginning of year | 2,804 | 2,889 |
| Currency realignment | (98) | (94) |
| Disposal of subsidiary companies | (365) | (662) |
| Acquisition of a subsidiary company | 13 | – |
| Provision made during the year | 317 | 755 |
| Bad debts written off against provision | (342) | (84) |
| Balance at end of year | 2,329 | 2,804 |

## 14. Other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | $'000 | $'000 | $'000 | $'000 |
| Prepayments | 3,619 | 3,234 | 22 | 20 |
| Sundry deposits | 668 | 873 | 8 | 149 |
| Staff advances and loans | 269 | 201 | 4 | 5 |
| Sundry debtors | 9,241 | 7,785 | 4,097 | 3,606 |
| Less : Provision for doubtful debts | (66) | (7) | – | – |
| | 9,175 | 7,778 | 4,097 | 3,606 |
| Amounts due from subsidiary companies | | | | |
| - interest bearing | – | – | 37,463 | 73,894 |
| - non-interest bearing | – | – | 14,274 | 2,400 |
| Less: Provision for doubtful debts | – | – | – | (2,000) |
| | – | – | 51,737 | 74,294 |
| | 13,731 | 12,086 | 55,868 | 78,074 |

Staff loans are unsecured, interest-free and payable through monthly instalments over a period up to 5 years from the date the loan is granted.

The non-interest bearing amounts due from subsidiary companies are unsecured, interest-free and have no fixed terms of repayment. The interest bearing amounts due from subsidiary companies are unsecured, bear interests at rates ranging from 5.87% to 6.33% (2003 : 5.87% to 6.33%) per annum and have no fixed terms of repayment.

Movements in provision for doubtful sundry debts are as follows :

| | Group | |
|---|---|---|
| | 2004 | 2003 |
| | $'000 | $'000 |
| Balance at beginning of year | 7 | 4 |
| Provision made during the year | 68 | 3 |
| Bad debts written off against provision | (9) | – |
| Balance at end of year | 66 | 7 |

Movement in provision for doubtful debts for amounts due from subsidiary companies are as follows:

| | Company | |
|---|---|---|
| | 2004 | 2003 |
| | $'000 | $'000 |
| Balance at beginning of year | 2,000 | 2,000 |
| Write back during the year | (2,000) | – |
| Balance at end of year | – | 2,000 |

## 15. Short-term investments

| | Group | |
|---|---|---|
| | 2004 | 2003 |
| | $'000 | $'000 |
| Quoted equity shares in corporations, at cost | 1,533 | 2,853 |
| Less : Provision for diminution in value | (286) | (137) |
| | 1,247 | 2,716 |
| Market value as at end of year | 1,247 | 2,716 |

The market price as at year end has been used to determine the fair value of quoted equity shares in corporations.

Movements in provision for diminution in value of short-term investments are as follows:

| | Group | |
|---|---|---|
| | 2004 | 2003 |
| | $'000 | $'000 |
| Balance at beginning of year | 137 | 659 |
| Provision/(writeback) during the year | 286 | (159) |
| Provision written back on disposal of investment | (137) | (363) |
| Balance at end of year | 286 | 137 |

## 16. Cash and deposits

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | $'000 | $'000 | $'000 | $'000 |
| Fixed deposits with financial institutions | 15,942 | 60,407 | 4,489 | 14,363 |
| Cash and bank balances | 20,288 | 23,175 | 662 | 909 |
| | 36,230 | 83,582 | 5,151 | 15,272 |

Fixed deposits are made for varying periods between three to thirty days and the effective interest rate on the fixed deposits approximate 3.32% (2003 : 1.26%) per annum.

## 17. Property, plant and equipment

| | Freehold land $'000 | Freehold buildings $'000 | Leasehold land and buildings $'000 |
|---|---|---|---|
| **Group** | | | |
| Cost/valuation : | | | |
| At 1.1.2004 | 14,973 | 110,897 | 96,953 |
| Currency realignment | (91) | 296 | (1,247) |
| Additions | 62 | 933 | – |
| Disposals/write-off | – | – | – |
| Acquisition of subsidiary companies | – | 2,334 | – |
| Disposal of subsidiary companies | – | – | (4,304) |
| Transfers | 1,988 | 2,068 | 3,996 |
| At 31.12.2004 | 16,932 | 116,528 | 95,398 |
| Accumulated depreciation and impairment loss | | | |
| At 1.1.2004 : | | | |
| - accumulated depreciation | – | 34,972 | 26,547 |
| - accumulated impairment loss | – | – | 2,000 |
| | – | 34,972 | 28,547 |
| Currency realignment | – | 139 | (103) |
| Charge for the year | – | 3,453 | 3,211 |
| Disposals/write-off | – | – | – |
| Acquisition of subsidiary companies | – | 101 | – |
| Disposal of subsidiary companies | – | – | (957) |
| Transfers | – | (1) | 1,128 |
| Impairment loss reversed due to disposal of subsidiary company | – | – | (1,500) |
| At 31.12.2004 | – | 38,664 | 30,326 |
| Charge for 2003 | – | 3,158 | 3,570 |
| Net book value : | | | |
| At 31.12.2004 | 16,932 | 77,864 | 65,072 |
| At 31.12.2003 | 14,973 | 75,925 | 68,406 |

| Leasehold improvements $'000 | Plant and machinery $'000 | Furniture, fittings and office equipment $'000 | Motor vehicles $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| 14,032 | 234,385 | 22,889 | 28,529 | 12,170 | 534,828 |
| (277) | (2,987) | (201) | (663) | (150) | (5,320) |
| 952 | 8,359 | 524 | 4,198 | 13,063 | 28,091 |
| (216) | (622) | (132) | (1,620) | – | (2,590) |
| 695 | 8,668 | 514 | 380 | 274 | 12,865 |
| – | (179) | (203) | – | – | (4,686) |
| 609 | 13,482 | 106 | 370 | (22,619) | – |
| 15,795 | 261,106 | 23,497 | 31,194 | 2,738 | 563,188 |
| 5,427 | 154,094 | 15,629 | 19,678 | – | 256,347 |
| – | – | – | – | – | 2,000 |
| 5,427 | 154,094 | 15,629 | 19,678 | – | 258,347 |
| (80) | (1,438) | (109) | (439) | – | (2,030) |
| 708 | 15,144 | 1,548 | 3,386 | – | 27,450 |
| (233) | (594) | (94) | (1,475) | – | (2,396) |
| 99 | 1,010 | 262 | 128 | – | 1,600 |
| – | (607) | (197) | – | – | (1,761) |
| – | (2,466) | 1,179 | 160 | – | – |
| – | – | – | – | – | (1,500) |
| 5,921 | 165,143 | 18,218 | 21,438 | – | 279,710 |
| 1,348 | 14,481 | 3,572 | 3,047 | – | 29,176 |
| 9,874 | 95,963 | 5,279 | 9,756 | 2,738 | 283,478 |
| 8,605 | 80,291 | 7,260 | 8,851 | 12,170 | 276,481 |

## 17. Property, plant and equipment (cont'd)

**Analysis of cost and valuation**

| | Cost $'000 | Assets at valuation $'000 | Total $'000 |
|---|---|---|---|
| Freehold land | 16,932 | – | 16,932 |
| Freehold buildings | 116,528 | – | 116,528 |
| Leasehold land and buildings | 80,697 | 14,701 | 95,398 |
| Leasehold improvements | 15,795 | – | 15,795 |
| Plant and machinery | 261,106 | – | 261,106 |
| Furniture, fittings and office equipment | 23,497 | – | 23,497 |
| Motor vehicles | 31,194 | – | 31,194 |
| Construction-in-progress | 2,738 | – | 2,738 |
| | 548,487 | 14,701 | 563,188 |

| | Leasehold improvements $'000 | Furniture, fittings and office equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|
| **Company** | | | | |
| Cost : | | | | |
| At 1.1.2004 | 2,580 | 784 | 280 | 3,644 |
| Additions | 195 | 174 | 326 | 695 |
| At 31.12.2004 | 2,775 | 958 | 606 | 4,339 |
| Accumulated depreciation : | | | | |
| At 1.1.2004 | 192 | 650 | 209 | 1,051 |
| Charge for the year | 123 | 75 | 100 | 298 |
| At 31.12.2004 | 315 | 725 | 309 | 1,349 |
| Charge for 2003 | 84 | 49 | 36 | 169 |
| Net book value | | | | |
| At 31.12.2004 | 2,460 | 233 | 297 | 2,990 |
| At 31.12.2003 | 2,388 | 134 | 71 | 2,593 |

(a) Leasehold land and buildings owned by an overseas subsidiary company was required to be revalued by the authorities in 1998. The valuation was made by the directors based on professional appraisals by Colliers Jordan Lee and Jaafar Sdn Bhd, a Chartered Valuation Surveyor, in May 1998. The valuation was made on the basis of open market value on an existing use basis.

(b) The net book value of the Group's leasehold land and buildings had it been carried at cost is $61,314,000 (2003 : $66,969,000).

(c) The net book value of property, plant and equipment includes an amount of $1,461,563 (2003 : nil) which are held under finance leases.

(d) Included in the Group's property, plant and equipment are property, plant and equipment of certain subsidiary companies with a net book value of $5,867,000 (2003 : $7,927,000) which are not in commercial use as at 31 December 2004.

## 18. Subsidiary companies

| | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|
| Unquoted equity shares, at cost | 118,412 | 112,261 |
| Impairment loss | (4,126) | (10,475) |
| | 114,286 | 101,786 |
| Advances to subsidiary companies | 165,089 | 143,128 |
| Less : Provision for doubtful debts | (13,239) | (15,431) |
| | 151,850 | 127,697 |
| | 266,136 | 229,483 |

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Movement in impairment loss is as follows : | | |
| Balance at beginning of year | 10,475 | 12,975 |
| Write-back during the year | (6,349) | (2,500) |
| Balance at end of year | 4,126 | 10,475 |
| Movements in the provision for doubtful debts are as follows : | | |
| Balance at beginning of year | 15,431 | 39,309 |
| Write-back during the year | (1,781) | (19,486) |
| Bad debts written off against provision | (3,411) | (4,392) |
| Provision made during the year | 3,000 | – |
| Balance at end of year | 13,239 | 15,431 |

The advances to subsidiary companies are unsecured and interest-free other than as detailed below. There are no fixed terms of repayment and no repayments are expected within the next 12 months, except for an amount of $19,221,480 (2003 : $26,523,277) which cannot be repaid to the Company until the subsidiary companies have paid their respective term loans from a bank.

Interest approximating to the cost of funds at rates ranging from 0.4% to 2.5% (2003 : 0.30% to 0.55%) per annum is receivable on advances to subsidiary companies amounting to $64,501,964 (2003 : $75,591,746).

Details of subsidiary companies are set out in Note 39.

## 19. Associated companies

| | Group 2004 $'000 | Group 2003 $'000 |
|---|---|---|
| Unquoted equity shares, at cost | 17,864 | 653 |
| Group's share of post-acquisition accumulated profits/(losses) | 532 | (42) |
| Currency realignment | (301) | (284) |
| Goodwill on acquisition | (9,475) | – |
| | 8,620 | 327 |
| Advances to associated companies | 2,037 | 2,156 |
| | 10,657 | 2,483 |

The Group's investment in associated companies represent unquoted equity shares held by subsidiary companies.

The advances to associated companies are unsecured, with no fixed terms of repayment and are not expected to be repaid within the next twelve months. Interest approximating at the rate of 11.5% (2003 : 11.5%) per annum is receivable on advances amounting to $1,771,000 (2003 : $1,871,100) due from associated companies.

Details of associated companies are set out in Note 39.

## 20. Joint venture company

| | Group 2004 $'000 | Group 2003 $'000 |
|---|---|---|
| Unquoted equity shares, at cost | 2,997 | 2,997 |
| Establishment costs | 52 | 52 |
| Group's share of post-acquisition accumulated losses | (287) | (325) |
| Currency realignment | 877 | 909 |
| Advances to joint venture company | 592 | – |
| | 4,231 | 3,633 |

The Group's investment in the joint venture company represents unquoted equity shares held by a subsidiary company. The joint venture agreement provides that neither the Group nor the other shareholder may transfer any of its shares for a period of five years from the date of the joint venture agreement without the prior consent of the other shareholder.

Details of the joint venture company are set out in Note 39.

## 20. Joint venture company (cont'd)

The Group's share of the assets and liabilities of the joint venture company comprise :

| | Group 2004 $'000 | Group 2003 $'000 |
|---|---|---|
| Balance sheet : | | |
| Property, plant and equipment | 7,276 | 7,295 |
| Other assets | 2,319 | 1,140 |
| Liabilities | (6,027) | (4,854) |
| | 3,568 | 3,581 |
| Profit and loss account : | | |
| Revenue | 20,630 | 6,731 |
| Expenditure | (20,576) | (7,196) |
| Profit/(loss) before taxation | 54 | (465) |
| Taxation | (16) | 140 |
| Profit/(loss) after taxation | 38 | (325) |

## 21. Investments

| | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|
| Quoted equity shares in corporations | | | | |
| At cost | 39,155 | 11,300 | – | – |
| Less : impairment loss | (3,200) | – | – | – |
| | 35,955 | 11,300 | – | – |
| Quoted bond, at cost | 998 | 998 | 998 | 998 |
| Unquoted equity shares in corporations, at cost | 13,557 | 13,557 | – | – |
| Other unquoted investment | 1,730 | – | – | – |
| Less : impairment loss | (3,700) | (3,700) | – | – |
| | 11,587 | 9,857 | – | – |
| | 48,540 | 22,155 | 998 | 998 |
| (i) Market value as at end of year : | | | | |
| - Quoted equity shares in corporations | 34,579 | 11,783 | – | – |
| - Quoted bond | 1,030 | 1,030 | 1,030 | 1,030 |
| (ii) Market value as at latest practicable date: | | | | |
| - Quoted equity shares in corporations | 36,404 | 10,484 | – | – |
| - Quoted bond | 1,030 | 1,040 | 1,030 | 1,040 |

## 21. Investments (cont'd)

| | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|
| Movements in impairment loss are as follows : | | | | |
| (i) Quoted equity shares in corporations : | | | | |
| Balance at beginning of year | – | 1,215 | – | – |
| Provision/(reversal) made during the year | 3,200 | (1,215) | – | – |
| Balance at end of year | 3,200 | – | – | – |
| (ii) Unquoted equity shares in a corporation : | | | | |
| Impairment loss recognised during the year | – | 3,700 | – | – |

Included in the investment in unquoted shares as at 31 December 2004 are advances provided by the Group to Gardenia Foods (Thailand) Ltd ("GFT"). When GFT fulfils the requisite criteria for an initial public offer and listing of its shares on the Stock Exchange of Thailand ("IPO"), the advances will be repaid in the form of shares in GFT and the maximum number of shares shall not exceed 18% of the total issued and paid up share capital of GFT upon its IPO. The advances are unsecured, non-interest bearing and are not expected to be repaid within the next twelve months.

## 22. Intangibles

| | Goodwill | Trademark | | Total |
|---|---|---|---|---|
| | | Company | Others | |
| | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | |
| Cost | | | | |
| At beginning of the year | – | 2,750 | 826 | 3,576 |
| Acquisition of additional interest in an associated company | 9,474 | – | – | 9,474 |
| Currency realignment | – | – | 1 | 1 |
| At end of year | 9,474 | 2,750 | 827 | 13,051 |
| Accumulated amortisation | | | | |
| At beginning of the year | – | 1,904 | 28 | 1,932 |
| Amortisation for the year (Note 5) | 118 | 138 | 35 | 291 |
| Currency realignment | – | – | – | – |
| At end of the year | 118 | 2,042 | 63 | 2,223 |
| Net book value | | | | |
| At end of the year | 9,356 | 708 | 764 | 10,828 |
| At beginning of the year | – | 846 | 798 | 1,644 |

## 23. Other payables

| | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|
| Payable within one year : | | | | |
| Staff related expenses | 14,206 | 11,905 | 825 | 760 |
| Accrued operating expenses | 14,563 | 10,216 | 335 | 1,252 |
| Sundry creditors | 7,825 | 4,483 | 3,727 | – |
| | 36,594 | 26,604 | 4,887 | 2,012 |
| Payable after one year : | | | | |
| Provision for long service leave | 8,167 | 7,362 | – | – |
| Amounts due to subsidiary companies | – | – | 9,537 | 33,930 |
| | 8,167 | 7,362 | 9,537 | 33,930 |

The amounts due to subsidiary companies are unsecured, interest-free, have no fixed terms of repayment and are not expected to be repaid in the next twelve months.

Movement in provision for long service leave are as follows :

| | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|
| Balance at beginning of year | 7,362 | 5,447 | – | – |
| Currency realignment | 30 | 1,655 | – | – |
| Provision made during the year | 1,025 | 468 | – | – |
| Amounts utilised | (250) | (208) | – | – |
| Balance at end of year | 8,167 | 7,362 | – | – |

## 24. Short-term borrowings

| | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|
| Short-term bank loans : | | | | |
| - unsecured | 52,366 | 69,679 | 48,111 | 67,302 |
| - secured | 24,230 | 19,712 | – | – |
| | 76,596 | 89,391 | 48,111 | 67,302 |

The short-term bank loans bear interest at rates ranging from 1.14% to 6.14% (2003 : 0.82% to 6.89%) per annum. The secured portion of the borrowings as at 31 December 2004 is charged on the raw materials purchased by a subsidiary company.

## 25. Long-term loans and finance leases

| | Group 2004 $'000 | Group 2003 $'000 |
|---|---|---|
| Loans from banks : | | |
| - Loan A | 9,830 | 7,944 |
| - Loan B | 14,000 | 21,000 |
| - Loan C | 2,000 | 3,000 |
| - Loan D | 64,127 | 76,419 |
| - Finance leases | 898 | – |
| | 90,855 | 108,363 |
| Less : Current portion | (44,784) | (48,849) |
| Non-current portion of loans | 46,071 | 59,514 |

Loan A bears interest ranging from 3.48% to 3.67% (2003 : 3.5% to 3.8%) per annum and are repayable in equal monthly instalments over two years commencing from 15 July 2005.

Loans B and C bear interest ranging from 1.73% to 2.48% (2003 : 1.69% to 2.33%) per annum and are repayable in 20 equal quarterly instalments commencing from January 2002. The loans are guaranteed by the Company and certain subsidiary companies.

Loan D bears interest at 6.40% (2003 : 6.19%) per annum and are repayable in 10 semi-annual instalments commencing from October 2003. The loan is guaranteed by the Company and certain subsidiary companies, subordination of certain inter-company balances amounting to $58,558,000 (2003 : $94,562,000) and compliance with financial covenants.

Commitments under finance leases as at 31 December 2004 are as follows:

| | Minimum lease payments $'000 | Present value of payments $'000 |
|---|---|---|
| Within one year | 351 | 290 |
| Between one and five years | 655 | 608 |
| After five years | – | – |
| Total minimum lease payments | 1,006 | 898 |
| Less: Amount representing finance charges | (108) | – |
| Present value of minimum lease payments | 898 | 898 |

Interest rates on finance leases range from 6.74% to 9.48% (2003 : nil) per annum.

## 26. Deferred taxation

| | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|
| Balance at beginning of year | 8,372 | 40,366 | 450 | 206 |
| Currency realignment | (276) | 4,491 | – | – |
| Disposal of subsidiary companies | – | (1,298) | – | – |
| (Reversal)/provision during the financial year | (356) | (35,187) | (243) | 244 |
| Balance at end of year | 7,740 | 8,372 | 207 | 450 |
| The deferred taxation arises as a result of : | | | | |
| Excess of net book value over tax written down value of property, plant and equipment | 6,039 | 7,310 | – | – |
| Excess of net book value over tax value of livestock of an overseas subsidiary company | 16,638 | 17,008 | – | – |
| Excess of net book value over tax value of certain raw material of an overseas subsidiary company | 1,237 | 1,404 | – | – |
| Unutilised tax losses | (8,893) | (12,190) | – | – |
| Sundry provisions | (3,340) | (2,562) | – | – |
| Employee benefits | (4,584) | (4,187) | 42 | – |
| Earnings which are retained overseas | 177 | 520 | 165 | 450 |
| Others | 466 | 1,069 | – | – |
| | 7,740 | 8,372 | 207 | 450 |
| Analysis of deferred taxation : | | | | |
| - deferred tax assets | (2,543) | (1,884) | – | – |
| - deferred tax liabilities | 10,283 | 10,256 | 207 | 450 |
| | 7,740 | 8,372 | 207 | 450 |

## 27. Share capital

| | Group and Company 2004 $'000 | Group and Company 2003 $'000 |
|---|---|---|
| Authorised : | | |
| 1,000,000,000 ordinary shares of $0.40 each | 400,000 | 400,000 |
| Issued and fully paid : | | |
| Stock units of $0.40 each | | |
| Balance at beginning of year | | |
| 351,280,373 (2003 : 336,750,373) stock units of $0.40 each | 140,512 | 134,700 |
| Issued during the year | | |
| 88,482,593 (2003 : 14,530,000) stock units of $0.40 each | 35,393 | 5,812 |
| Balance at end of year | | |
| 439,762,966 (2003 : 351,280,373) stock units of $0.40 each | 175,905 | 140,512 |

## 27. Share capital (cont'd)

During the financial year :

(i) the Company issued 530,000 (2003 : 30,000) ordinary shares of $0.40 each for cash at the exercise price of $0.43 per share upon the exercise of 530,000 (2003 : 30,000) share options by employees pursuant to the QAF Limited Share Option Scheme 2000 ("2000 Scheme"); and

(ii) There was an issue of 87,952,593 shares pursuant to a rights issue undertaken by the Company during the year.

A rights issue was carried out in October 2004 of between a minimum of 87,952,593 and a maximum of 89,370,093 new ordinary share of par value $0.40 each ("Rights Shares") in the capital of the Company at an issue price of $0.50 for each Rights Share on the basis of 1 Rights Share with 1 warrant ("Warrants 2009") for every 4 existing ordinary shares in the Company, each warrant carrying the right to subscribe for 1 ordinary share in the capital of the Company at the exercise price of $0.50 for each new share. Warrants 2009 are valid for exercise within a period of 5 years commencing on and including the date of issue of the Warrants 2009. The rights issue was closed on 8 November 2004. A total of 87,952,593 ordinary shares in the Company and 87,952,593 Warrants 2009 were issued/ allotted on 17 November 2004 and the Warrants 2009 are listed and quoted on the SGX-ST.

## 28. Reserves

| | Group | | Company | |
|---|---|---|---|---|
| | 2004<br>$'000 | 2003<br>$'000 | 2004<br>$'000 | 2003<br>$'000 |
| **Non-distributable reserves** | | | | |
| Share premium | 13,619 | 4,996 | 13,619 | 4,996 |
| Revaluation reserve | 2,409 | 2,457 | – | – |
| Capital reserve | 16,235 | 16,235 | – | – |
| | 32,263 | 23,688 | 13,619 | 4,996 |
| **Distributable reserves** | | | | |
| Revenue reserve | 97,608 | 92,805 | 78,687 | 77,050 |
| Foreign currency translation reserve | 2,645 | 6,962 | – | – |
| | 100,253 | 99,767 | 78,687 | 77,050 |
| | 132,516 | 123,455 | 92,306 | 82,046 |

Analysis of movement in the reserves of the Company :

| | Company | |
|---|---|---|
| | 2004<br>$'000 | 2003<br>$'000 |
| **Share premium** | | |
| At beginning of year | 4,996 | 2,821 |
| Premium arising on issuance of shares during the year | 8,623 | 1,454 |
| Transfer from capital reserve upon exercise of Warrants 2003 | – | 721 |
| At end of year | 13,619 | 4,996 |

## 28. Reserves (cont'd)

| | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|
| **Capital reserve** | | |
| At beginning of year | – | 721 |
| Transfer to share premium account upon exercise of Warrants 2003 | – | (721) |
| At end of year | – | – |
| **Revenue reserve** | | |
| At beginning of year | 77,050 | 34,245 |
| Net profit for the year | 7,266 | 48,058 |
| Dividends | (5,629) | (5,253) |
| At end of year | 78,687 | 77,050 |

### Share premium

The share premium account represents net cash proceeds received in excess of the par value of the shares issued by the Company. The utilisation of the share premium account is governed by Sections 69-69F of the Companies Act.

### Revaluation reserve

The revaluation reserve comprises surplus arising from the revaluation of property, plant and equipment by a subsidiary company. In each financial year, an amount is transferred to the revenue reserve to match the additional depreciation charge on the revalued assets.

### Capital reserve

Capital reserve of the Company comprise the value attributed to Warrants 2003 less amounts transferred to the share premium account upon the exercise of Warrants 2003.

Capital reserve of the Group comprise the capital reserve of the Company and amounts transferred from the revenue reserve due to bonus shares issued by a subsidiary company as fully paid shares through capitalisation of its revenue reserve.

### Foreign currency translation reserve

The foreign currency translation reserve comprise translation differences arising from the translation of assets and liabilities of foreign subsidiary, associated and joint venture companies for inclusion in the consolidated financial statements and exchange differences arising from the long-term intercompany balances which are effectively part of the net investment.

## 29. Dividends paid and proposed

The Directors have proposed a first and final dividend of 2 cents (2003 : 2 cents) per stock unit, net of tax at 20% (2003 : 20%), amounting to $7,036,207 (2003 : $5,628,966) be paid in respect of the financial year ended 31 December 2004. The dividend will be recorded as a liability in the balance sheet of the Company and Group upon approval of the shareholders at the next Annual General Meeting of the Company.

## 30. Cash and cash equivalents

Cash and cash equivalents consist cash on hand, cash at bank and fixed deposits with financial institutions.

Cash and cash equivalents included in the consolidated cash flow statement comprise the following balance sheet amounts :

| | Group | |
|---|---|---|
| | 2004 | 2003 |
| | $'000 | $'000 |
| Cash and bank balances | 20,288 | 23,175 |
| Fixed deposits with financial institutions | 15,942 | 60,407 |
| | 36,230 | 83,582 |

## 31. Employee benefits

### (i) Share options

The Group has granted share options to eligible employees under The QAF Limited Share Option Scheme 2000 ("2000 Scheme").

The 2000 Scheme was approved by the members of the Company at an Extraordinary General Meeting held on 12 May 2000. The total number of shares in respect of which options may be offered on any offering date, when added to the number of shares issued or issuable in respect of options under this Scheme shall not exceed 15% of the issued share capital of the Company on the day preceding that offering date.

The exercise price of each share in respect of an option granted may be (i) the average of the last dealt prices of the shares of the Company, as determined by reference to the Financial News or other publication published by the Singapore Exchange Securities Trading Limited, for the three consecutive trading days immediately preceding the date of grant of that option ("Market Price") or (ii) at a discount not exceeding 20% of the Market Price, but in any event no exercise price shall be less than the par value of the share.

An option granted without discount to the Market Price shall be exercisable from the 1st anniversary to the 10th anniversary of the offer date. An option granted at a discount to the Market Price shall be exercisable from the 2nd anniversary to the 10th anniversary of the offer date.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## 31. Employee benefits (cont'd)

### (i) Share options (cont'd)

Information with respect to the total number of options granted under the 2000 Scheme are as follows :

| | No. of options in financial year 2004 '000 | Weighted average exercise price in financial year 2004 $ | No. of options in financial year 2003 '000 | Weighted average exercise price in financial year 2003 $ |
|---|---|---|---|---|
| Outstanding at beginning of year | 7,783 | 0.605 | 8,207 | 0.604 |
| Granted | 3,755 | 0.523 | – | – |
| Exercised | (530) | 0.430 | (30) | 0.555 |
| Lapsed/forfeited | (1,658) | 0.815 | (394) | 0.579 |
| Outstanding at end of year | 9,350 | 0.545 | 7,783 | 0.605 |
| Exercisable at end of year | 5,660 | 0.559 | 7,783 | 0.605 |

The following table summarises information about options outstanding and exercisable as at 31 December 2004 to subscribe for ordinary shares of $0.40 each in the Company :

| Outstanding | | | Exercisable | | |
|---|---|---|---|---|---|
| Date of grant | Number of Options | Exercise price per share | Exercise period From | Exercise period To | Number of Options |
| 26.05.2000 | 2,005,000 | $0.630 | 26.05.2001 | 25.05.2010 | 2,005,000 |
| 19.04.2001 | 1,023,000 | $0.430 | 19.04.2002 | 18.04.2011 | 1,023,000 |
| 05.04.2002 | 2,632,000 | $0.555 | 05.04.2003 | 04.04.2012 | 2,632,000 |
| 13.05.2004 | 3,690,000 | $0.523 | 13.05.2005 | 12.05.2014 | – |
| | 9,350,000 | | | | 5,660,000 |

Included in the options outstanding as at 31 December 2004 are 950,000 (2003 : nil) options granted to the executive directors of the Company.

### (ii) Retirement benefits

The Group's companies in Australia (namely the QAF Meats Group of companies) operate a superannuation scheme that include The QAF Meats Group Superannuation Fund (Defined Benefits) (the "Fund"). The Fund is managed by an external administrator and the assets of the Fund are held in a separate trustee-administered fund. The Fund guarantees its members (i.e. the employees) a superannuation payout based on level of salary and years of service, irrespective of the investment returns which the fund makes. As at 31 December 2004, the net market value of the assets held by the Fund to meet future payments amounted to $23,137,000 (2003 : $20,040,000) as compared to the present value of employee's accrued and vested benefit of $22,751,000 (2003 : $20,464,000). The last actuarial assessment was completed as at 1 October 2001 by an independent actuary and updated to 31 December 2004 by the fund administrator. An expected rate of return of approximately 6.5% (2003 : 6.5%) per annum and a discount rate of approximately 4.0% (2003 : 4.0%) formed part of the assumptions used by the actuary.

## 31. Employee benefits (cont'd)

### (ii) Retirement benefits (cont'd)

The superannuation scheme also include The QAF Meats Group Superannuation Fund (Accumulation). By definition, the asset valuation of this fund is the vested benefit of members. Members are entitled to their contributions, and those of the company, along with the return on investment the fund has achieved in their time of membership. This fund is managed by an external administrator and the assets of the Fund are invested with external fund managers.

## 32. Commitments

(i) Capital commitments not provided for in the financial statements :

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 $'000 | 2003 $'000 | 2004 $'000 | 2003 $'000 |
| Expenditure contracted for : | | | | |
| - proposed expansion of manufacturing facilities | 947 | 8,684 | – | – |
| - capital contribution | 6,461 | 8,505 | – | – |
| - others | 329 | 60 | – | – |
| | 7,737 | 17,249 | – | – |
| Approved by the directors but not contracted for | 325 | 7,039 | 7 | 501 |
| | 8,062 | 24,288 | 7 | 501 |

| | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|
| (ii) Commitments to purchase bulk supplies of raw materials | 1,837 | 5,867 | – | – |

(iii) Commitments under non-cancellable operating leases with a term of more than one year. The minimum lease payments are :

| | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|
| Leases which expire : | | | | |
| Within one year | 2,817 | 2,854 | – | – |
| Between one and five years | 7,985 | 7,401 | – | – |
| After five years | 27,871 | 30,151 | – | – |
| | 38,673 | 40,406 | – | – |

The Group leases office premises, warehousing/trading facilities, retail outlets and passenger and commercial vehicles under operating leases. The leases typically run for an initial period of 3 to 50 years, with an option to renew the lease after that date. Lease rentals are usually adjusted during the renewals to reflect market rentals.

(iv) In the ordinary course of its business, the Company, as the holding company, has given undertakings to continue to provide financial support to certain subsidiary companies.

## 33. Contingent liabilities (unsecured)

| | | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|---|
| (a) | Guarantees issued for bank facilities granted to subsidiary companies | – | – | 153,570 | 210,234 |
| | Amounts utilised by subsidiaries as at balance sheet date | – | – | 80,127 | 100,419 |
| (b) | Outstanding forward exchange contracts | 5,251 | 4,213 | – | – |
| | At the balance sheet date, there is no material unrealised gain/(loss) on these contracts. | | | | |
| (c) | Claims by subsidiary companies' employee union and ex-employees via industrial court case | 716 | 745 | – | – |

No material losses are expected to arise from the above contingencies.

## 34. Related party transactions

The following related party transactions took place during the financial year on terms agreed by the parties concerned :

| | Group 2004 $'000 | Group 2003 $'000 | Company 2004 $'000 | Company 2003 $'000 |
|---|---|---|---|---|
| Purchases from related parties | 92 | 269 | – | – |
| Sales to related parties | – | 24,775 | – | – |
| Rental paid to a related party | 38 | 102 | 38 | 102 |
| Purchase of property, plant and equipment from a related party | – | 1,200 | – | 1,200 |

The related parties above refer to entities affiliated with the controlling shareholder of the Company.

## 35. Financial risk management objectives and policies

The main risks faced by the Group are foreign currency risk, interest rate risk and credit risk that arise through its normal operations.

### Foreign currency risk

Foreign exchange risk arises from a change in foreign currency exchange rate, which is expected to have adverse effect on the Group in the current reporting period and in future years. The Group operates within the Asia Pacific region and companies within the Group maintain their books and records in their respective measurement currencies. The Group's accounting policy is to translate the profits and losses of overseas companies using the weighted average exchange rates. Net assets denominated in foreign currencies and held at the year end are translated into Singapore dollars, the Group's reporting currency, at year end exchange rates. Fluctuations in the exchange rate between the measurement currency of the subsidiary companies and Singapore dollars will therefore have an impact on the Group. It is the Group's policy not to hedge exposures arising from such translations. The Group may pursue such a policy in the future if the need arises. The Group aims to fund overseas operations with borrowings denominated in their measurement currency as a natural hedge against overseas assets.

The Group's subsidiary companies in Australia and Malaysia use foreign currency forward exchange contracts with settlement period within 6 months from the year end to manage foreign currency exposures arising from normal trading activities. The outstanding forward exchange contracts are disclosed in Note 33.

### Interest rate risk

Interest rate risk is the risk that changes in interest rates will have an adverse financial effect on the Group's financial conditions and/or results. The primary source of the Group's interest rate risk is its borrowings from banks and other financial institutions in Singapore, Malaysia and Australia. The Group does not hedge interest rate risks. The Group ensures that it obtains borrowings at competitive interest rates under the most favourable terms and conditions.

### Credit risk

Credit risk is the risk that entities and individuals will be unable to meet their obligations to the Group resulting in financial loss to the Group. It is the Group's policy to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales of products and services are made to customers with appropriate credit history and has internal mechanisms to monitor the granting of credit and management of credit exposures. The Group has made provisions, where necessary, for potential losses on credits extended. The Group's maximum exposure to credit risk in the event the counterparties fail to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet. The Group has no significant concentration of credit risk.

### Financial risk

The Group is exposed to financial risks arising from changes in prices of pig and animal feeds. The Group has not entered into derivative or other contracts to manage the risk or a decline in pig prices or of an increase in the price of animal feeds. The Group reviews its outlook for pig and animal feed prices regularly in considering the need for active financial risk management.

### Derivative financial instruments

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

## 35. Financial risk management objectives and policies (cont'd)

### Fair value of financial assets and financial liabilities

The fair values of the investment in the quoted equity shares and bonds are disclosed in Notes 15 and 21. Market prices have been used to determine the fair values of the quoted investments. In the opinion of the Directors, it is impractical to determine the fair value of the unquoted equity shares in subsidiary, associated and joint venture companies. There are no material differences between the book and fair values of the Group's other financial assets and liabilities.

## 36. Financial risk management strategies relating to livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling price of pork and related products, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases. The Group has little or no control over these conditions and factors.

The Group is subject to risks affecting the food industry generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by numerous environmental, health and food safety organisations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Despite the precautions taken by the Group, the authorities may impose additional regulatory requirements that may require significant capital investment at short notice.

The Group is subject to risks relating to its ability to maintain animal health status. Livestock health problems could adversely impact production and consumer confidence. The Group monitors the health of its livestock on daily basis and have procedures in place to reduce potential exposure to infectious diseases. Although policies and procedures have been put into place, there is no guarantee that the Group will not be affected by disease epidemics.

The livestock industry is exposed to risks associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results, like the worst Australian drought in living memory that severely affected the grain production during the previous year. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group will enter into forward contracts to secure the supply of grain at reasonable price. Details of such forward contracts are disclosed in Note 32.

## 37. Discontinued operation

On 15 November 2003, the Group disposed its 51% interest in Shop N Save Pte Ltd and the Group discontinued its supermarket operations with the disposal of Shop N Save Pte Ltd. The Group also disposed its 100% interest in Gardenia Foods (Thailand) Limited during that financial year.

The carrying amounts of total assets and liabilities disposed are as follows :

| | Group 2003 $'000 |
|---|---|
| Total assets | 76,561 |
| Total liabilities | (54,637) |
| | 21,924 |

The revenues, expenses and results from the ordinary operations up to the date of disposal and for the year ended 31 December 2003 are as follows :

| | |
|---|---|
| Revenue | 235,731 |
| Operating costs | (234,787) |
| Profit from operations | 944 |
| Finance costs | (64) |
| Profit before taxation | 880 |
| Taxation | (515) |
| Profit for the period/year | 365 |
| The net cash flows attributable are as follows : | |
| Operating | 7,266 |
| Investing | (3,295) |
| Financing | – |
| Net cash inflows/(outflows) | 3,971 |
| The net gain on disposal is as follows : | |
| Proceeds from disposal | 47,800 |
| Share of net assets | (11,127) |
| Gain on disposal before taxation | 36,673 |
| Taxation | – |
| Net gain on disposal | 36,673 |

## 38. Segmental reporting

### (a) Business segments

| | Food manufacturing $'000 | Primary production $'000 | Trading and logistics $'000 | Investments and others $'000 | Discontinued operations $'000 | Eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|
| **Revenue and expenses** | | | | | | | |
| **2004** | | | | | | | |
| Revenue from external customers | 229,455 | 258,236 | 112,920 | 12,535 | – | – | 613,146 |
| Other revenue from external customers | 1,503 | 3,046 | 527 | 928 | – | – | 6,004 |
| Inter-segment revenue | 757 | 19,733 | 467 | 10,664 | – | (31,621) | – |
| Unallocated revenue | – | – | – | – | – | – | 847 |
| Total revenue | 231,715 | 281,015 | 113,914 | 24,127 | – | (31,621) | 619,997 |
| Segment results | 28,992 | 3,494 | (147) | (189) | – | – | 32,150 |
| Unallocated revenue | | | | | | | 847 |
| Unallocated expenses | | | | | | | (6,421) |
| **Profit from operating activities** | | | | | | | 26,576 |
| Finance costs | | | | | | | (8,158) |
| Exceptional items | | | | | | | (1,866) |
| Share of profit of associated and joint venture companies | | | | | | | 650 |
| **Profit before taxation and minority interests** | | | | | | | 17,202 |
| Taxation | | | | | | | (4,579) |
| Minority interests | | | | | | | (2,262) |
| **Net profit for the financial year** | | | | | | | 10,361 |

## 38. Segmental reporting (cont'd)

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

| | Food manufacturing $'000 | Primary production $'000 | Trading and logistics $'000 | Investments and others $'000 | Discontinued operations $'000 | Eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|
| **Revenue and expenses 2003** | | | | | | | |
| Revenue from external customers | 214,926 | 242,796 | 113,328 | – | 232,235 | – | 803,285 |
| Other revenue from external customers | 1,524 | 2,270 | 952 | 629 | – | – | 5,375 |
| Inter-segment revenue | 4,392 | 13,113 | 4,307 | 9,017 | 659 | (31,488) | – |
| Unallocated revenue | – | – | – | – | – | – | 728 |
| Total revenue | 220,842 | 258,179 | 118,587 | 9,646 | 232,894 | (31,488) | 809,388 |
| Segment results | 27,419 | (41,325) | 1,712 | 1,241 | 1,511 | – | (9,442) |
| Unallocated revenue | | | | | | | 728 |
| Unallocated expenses | | | | | | | (4,812) |
| **Loss from operating activities** | | | | | | | (13,526) |
| Finance costs | | | | | | | (10,431) |
| Exceptional items | | | | | | | 32,973 |
| Share of loss of associated and joint venture companies | | | | | | | (496) |
| **Profit before taxation and minority interests** | | | | | | | 8,520 |
| Taxation | | | | | | | 27,942 |
| Minority interests | | | | | | | (3,871) |
| **Net profit for the financial year** | | | | | | | 32,591 |

## 38. Segmental reporting (cont'd)

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

| | Food manufacturing $'000 | Primary production $'000 | Trading and logistics $'000 | Investments and others $'000 | Discontinued operations $'000 | Eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|
| **Assets and liabilities 2004** | | | | | | | |
| Segment assets | 141,434 | 292,158 | 74,127 | 95,750 | – | – | 603,469 |
| Associated and joint venture companies | 2,341 | 12,547 | – | – | – | – | 14,888 |
| Total assets | 143,775 | 304,705 | 74,127 | 95,750 | – | – | 618,357 |
| Deferred tax asset | | | | | | | 2,543 |
| Tax recoverable | | | | | | | 2,124 |
| Total assets per consolidated balance sheet | | | | | | | 623,024 |
| Segment liabilities | 34,196 | 45,229 | 16,725 | 10,946 | | | 107,096 |
| Provision for taxation | | | | | | | 3,792 |
| Deferred taxation | | | | | | | 10,283 |
| Bank borrowings | | | | | | | 167,451 |
| Total liabilities per consolidated balance sheet | | | | | | | 288,622 |
| **Assets and liabilities 2003** | | | | | | | |
| Segment assets | 129,121 | 289,320 | 66,492 | 86,264 | – | – | 571,197 |
| Associated and joint venture companies | 2,483 | 3,633 | – | – | – | – | 6,116 |
| Total assets | 131,604 | 292,953 | 66,492 | 86,264 | – | – | 577,313 |
| Deferred tax asset | | | | | | | 1,884 |
| Tax recoverable | | | | | | | 1,924 |
| Total assets per consolidated balance sheet | | | | | | | 581,121 |
| Segment liabilities | 27,436 | 47,039 | 10,213 | 3,308 | – | – | 87,996 |
| Provision for taxation | | | | | | | 4,803 |
| Deferred taxation | | | | | | | 10,256 |
| Bank borrowings | | | | | | | 197,754 |
| Total liabilities per consolidated balance sheet | | | | | | | 300,809 |

## 38. Segmental reporting (cont'd)

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

| | Food manufacturing $'000 | Primary production $'000 | Trading and logistics $'000 | Investments and others $'000 | Discontinued operations $'000 | Eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|
| **Other segment information 2004** | | | | | | | |
| Capital expenditure | 18,487 | 794 | 736 | 8,074 | – | – | 28,091 |
| Amortisation and depreciation | 13,734 | 10,772 | 2,395 | 840 | – | – | 27,741 |
| Impairment loss reversed | (1,500) | – | – | – | – | – | (1,500) |
| **Other segment information 2003** | | | | | | | |
| Capital expenditure | 19,657 | 4,065 | 729 | 2,428 | 3,405 | – | 30,284 |
| Amortisation and depreciation | 12,912 | 9,258 | 2,373 | 307 | 4,488 | – | 29,338 |
| Impairment loss, net | 1,000 | – | – | – | – | – | 1,000 |

### (b) Geographical segment

| | Singapore $'000 | Malaysia $'000 | Australia $'000 | Philippines $'000 | China $'000 | Other countries $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|
| **2004** | | | | | | | |
| Revenue from external customers | 157,735 | 149,071 | 238,493 | 39,980 | 472 | 33,399 | 619,150 |
| Unallocated revenue | | | | | | | 847 |
| Total revenue | 157,735 | 149,071 | 238,493 | 39,980 | 472 | 33,399 | 619,997 |
| Segment assets | 177,131 | 93,106 | 316,289 | 24,365 | 7,461 | 2 | 618,354 |
| Capital expenditure | 2,599 | 13,188 | 7,647 | 4,118 | 539 | – | 28,091 |
| **2003** | | | | | | | |
| Revenue from external customers | 376,900 | 144,826 | 190,037 | 29,800 | 23,314 | 43,783 | 808,660 |
| Unallocated revenue | | | | | | | 728 |
| Total revenue | 376,900 | 144,826 | 190,037 | 29,800 | 23,314 | 43,783 | 809,388 |
| Segment assets | 171,634 | 90,531 | 286,189 | 20,715 | 8,238 | 6 | 577,313 |
| Capital expenditure | 7,859 | 16,208 | 4,120 | 2,095 | – | 2 | 30,284 |

## 39. Subsidiary, associated and joint venture companies

(a) The subsidiary companies as at 31 December 2004 are :-

| | Name of company (Country of incorporation) | Principal activities (place of business) | Cost 2004 $'000 | Cost 2003 $'000 | Percentage of equity held by the group 2004 % | Percentage of equity held by the group 2003 % |
|---|---|---|---|---|---|---|
| | **Food manufacturing, retailing, trading and logistics** | | | | | |
| | Ben Foods (S) Pte Ltd ① (Singapore) | Trading and distribution of food and beverage products (Singapore) | 14,204 | 14,204 | 100 | 100 |
| @ | Ben Foods (East Malaysia) Sdn Bhd ② (Malaysia) | Operation of supermarkets (Malaysia) | ✣ | ✣ | 100 | 100 |
| | Ben Trading (Malaysia) Sdn Bhd ② (Malaysia) | Trading and distribution of food and beverage products (Malaysia) | ✣ | ✣ | 100 | 100 |
| | Spices of the Orient Pte Ltd ① (Singapore) | Manufacture and trading of spices (Singapore) | 5,126 | 5,126 | 100 | 100 |
| * | Highwood Pte Ltd (Singapore) | Retail and sale of liquor, soft drinks, café and snacks | ✣ | – | 100 | – |
| | Gardenia Foods (S) Pte Ltd ① (Singapore) | Bread manufacturer (Singapore) | 5,516 | 5,516 | 100 | 100 |
| | Gardenia Bakeries (KL) Sdn Bhd ② (Malaysia) | Bread manufacturer (Malaysia) | + | + | 70 | 70 |
| | Gardenia Sales & Distribution Sdn Bhd ② (Malaysia) | Marketing and distribution of bakery products (Malaysia) | + | + | 70 | 70 |
| | Farmland Central Bakery (S) Pte Ltd ① (Singapore) | Purchasing agent of bread, confectionery and bakery products (Singapore) | 500 | 500 | 100 | 100 |
| | Millif Industries Sdn Bhd ② (Malaysia) | Manufacture of kaya and related products (Malaysia) | 360 | 360 | 65 | 65 |
| | Ben Fortune Pastry Manufacturing (M) Sdn Bhd ② (Malaysia) | Manufacture and distribution of confectionery and pastry (Malaysia) | ✣ | ✣ | 100 | 100 |

## 39. Subsidiary, associated and joint venture companies (cont'd)

| | Name of company (Country of incorporation) | Principal activities (place of business) | Cost 2004 $'000 | Cost 2003 $'000 | Percentage of equity held by the group 2004 % | Percentage of equity held by the group 2003 % |
|---|---|---|---|---|---|---|
| | **Food manufacturing, retailing, trading and logistics (cont'd)** | | | | | |
| | NCS Cold Stores (S) Pte Ltd ① (Singapore) | Operation of warehousing logistics (Singapore) | 16,940 | 16,940 | 100 | 100 |
| | QAF Fruits Cold Store Pte Ltd ① (Singapore) | Operation of cold storage warehouse (Singapore) | + | + | 62 | 58 |
| | Gardenia Bakeries (Philippines) Inc. ④ (Philippines) | Manufacture and distribution of bread, confectionery and bakery products (Philippines) | + | + | 100 | 100 |
| | Bonjour Bakery Pte Ltd ① (Singapore) | Marketing and distribution of bread, confectionery and bakery products (Singapore) | + | + | 100 | 100 |
| | Delicia Sdn Bhd ② (Malaysia) | Manufacture of bread, confectionery and bakery products (Malaysia) | + | + | 100 | 100 |
| * | Bakers Maison (Australia) Pty Ltd (Australia) | Manufacture of confectionery and bakery products (Australia) | + | – | 100 | – |
| | **Production, processing and marketing of pork, and feedmill production** | | | | | |
| | QAF Feeds Pty Ltd ⑥ (Australia) | Manufacturing of stockfeed and sales and distribution of animal feed products (Australia) | + | + | 100 | 100 |
| | QAF Meat Industries Pty Ltd ⑥ (Australia) | Intensive pig production and wholesaling (Australia) | + | + | 100 | 100 |
| | QAF Meat Processors Pty Ltd ⑥ (Australia) | Pig slaughtering and meat boning (Australia) | + | + | 100 | 100 |
| | Brooksbank Properties Pty Ltd ⑥ (Australia) | Intensive pig production and wholesaling (Australia) | + | + | 100 | 100 |

## 39. Subsidiary, associated and joint venture companies (cont'd)

| Name of company (Country of incorporation) | Principal activities (place of business) | Cost 2004 $'000 | Cost 2003 $'000 | Percentage of equity held by the group 2004 % | Percentage of equity held by the group 2003 % |
|---|---|---|---|---|---|
| **Production, processing and marketing of pork, and feedmill production (cont'd)** | | | | | |
| Fujian Dongjia Feeds Co Ltd ⑤ (People's Republic of China) | Inactive (People's Republic of China) | + | + | 100 | 100 |
| **Milk/Dairy Production** | | | | | |
| Oxdale Dairy Enterprise Pty Ltd ⑥ (Australia) | Milk production (Australia) | + | – | 100 | – |
| Challenge Australian Dairy Pty Ltd ⑦ (Western Australia) | Collection and sale of raw milk and the manufacture of dairy products (Western Australia) | + | – | 51 | – |
| **Investment holding and management** | | | | | |
| QAF Management Services (S) Pte Ltd ① (Singapore) | Investment holding (Singapore) | ✣ | ✣ | 100 | 100 |
| QAF Agencies (S) Pte Ltd ① (Singapore) | Share trading and investment holding (Singapore) | ✣ | ✣ | 100 | 100 |
| Pemscorp Pte Ltd ① (Singapore) | Investment holding (Singapore) | 5,092 | 5,092 | 100 | 100 |
| Oxdale International Pte Ltd ① (Singapore) | Investment holding (Singapore) | 12,501 | ✣ | 100 | 100 |
| Gardenia International (S) Pte Ltd ① (Singapore) | Investment holding (Singapore) | 7,993 | 7,993 | 100 | 100 |
| Singfood Investment Pte Ltd ① (Singapore) | Investment holding (Singapore) | ✣ | ✣ | 100 | 100 |

## 39. Subsidiary, associated and joint venture companies (cont'd)

| | Name of company (Country of incorporation) | Principal activities (place of business) | Cost 2004 $'000 | Cost 2003 $'000 | Percentage of equity held by the group 2004 % | Percentage of equity held by the group 2003 % |
|---|---|---|---|---|---|---|
| | **Investment holding and management (cont'd)** | | | | | |
| | Hamsdale International Pte Ltd ① (Singapore) | Investment holding (Singapore) | 50,005 | 50,005 | 100 | 100 |
| | Hamsdale Australia Pty Ltd ⑥ (Australia) | Investment holding (Australia) | + | + | 100 | 100 |
| | Camellia Bakeries (S) Pte Ltd ① (Singapore) | Investment holding (Singapore) | + | + | 100 | 100 |
| * | Edenc International Pte Ltd (Singapore) | Investment holding (Singapore) | ✣ | – | 100 | – |
| | Gardenia Investments Pte Ltd ① (Singapore) | Investment holding (Singapore) | + | – | 100 | – |
| | Oxdale Investments Pte Ltd ① (Singapore) | Investment holding (Singapore) | + | – | 100 | – |
| | W.A. Oxdale Holdings Pte Ltd ① (Singapore) | Investment holding (Singapore) | + | – | 100 | – |
| * | Bakers Maison Pty Ltd (Australia) | Investment holding (Australia) | + | – | 100 | – |
| | **Dormant corporations** | | | | | |
| | Auspeak Integrated Livestock Farming (Fujian) Co. Ltd. ⑤ (People's Republic of China) | Dormant | + | + | 100 | 100 |
| ★ | Ben Foods (Malaysia) Sdn Bhd (Malaysia) | Dormant | – | – | 100 | 100 |

## 39. Subsidiary, associated and joint venture companies (cont'd)

| | Name of company (Country of incorporation) | Principal activities (place of business) | Cost 2004 $'000 | Cost 2003 $'000 | Percentage of equity held by the group 2004 % | Percentage of equity held by the group 2003 % |
|---|---|---|---|---|---|---|
| | **Dormant corporations (cont'd)** | | | | | |
| | Ben (Malaysia) Holdings Sdn Bhd ② (Malaysia) | Dormant | ✣ | ✣ | 100 | 100 |
| | Gardenia Bakery & Foodstuff (Tianjin) Co Ltd ⑦ (People's Republic of China) | Dormant | – | 6,350 | – | 100 |
| | OSA Marketing Associates (M) Sdn Bhd ② (Malaysia) | Dormant | 175 | 175 | 100 | 100 |
| @ | Gardenia (Hong Kong) Limited ③ (Hong Kong) | Dormant | ✣ | ✣ | 100 | 100 |
| ✜ | Everyday Bakery and Confectionery Sdn Bhd ② (Malaysia) | Dormant | + | + | 70 | 70 |
| | Bonjour Bakery Sdn Bhd ② (Malaysia) | Dormant | + | + | 100 | 100 |
| | Summit Rainbow Sdn Bhd ② (Malaysia) | Dormant | + | + | 100 | 100 |
| * | Precious Fortune Limited (British Virgin Islands) | Dormant | ✣ | ✣ | 100 | 100 |
| | | | 118,412 | 112,261 | | |

**Note**

* Audit not required under the laws in the country of incorporation.
@ The cost of investment has been fully written off.
\+ The shareholdings of these companies are held by subsidiary companies of QAF Limited.
✣ The costs of investment in each of these companies is less than $1,000.
★ The subsidiary company has been placed under voluntary liquidation as at 31 December 2004
✜ The subsidiary company ceased operations or became dormant during the financial year.

Audited by :
① Ernst & Young, Singapore
② Ernst & Young, Malaysia
③ Ernst & Young, Hong Kong
④ Sycip Gorres Velayo & Co, Philippines
⑤ Ernst & Young Hua Ming, China
⑥ Ernst & Young, Australia
⑦ Other firms of Certified Public Accountants

(In Singapore dollars)

## 39. Subsidiary, associated and joint venture companies (cont'd)

| Name of company (Country of incorporation) | Principal activities (Place of business) | Percentage of equity held by the group 2004 % | 2003 % |
|---|---|---|---|
| (b) The associated companies as at 31 December 2004 are : | | | |
| Philfoods Fresh-Baked Products, Inc. (Philippines) | Bread manufacturer (Philippines) | 40 | 40 |
| Phil Foods Properties Inc. (Philippines) | Investment holding (Philippines) | 40 | 40 |
| China Delisi Holdings Pte Ltd (Singapore) | Investment holding (Singapore) | 27 | – |
| (c) The joint venture company as at 31 December 2004 is : | | | |
| Diamond Valley Pork Pty Ltd (Australia) | Pig meat processing and wholesale (Australia) | 51 | 51 |

The Group's investment in Diamond Valley Pork Pty Ltd is treated as a joint venture as the company is jointly controlled with the other shareholder and the Group may have to give up the additional 1% share at the request of the other shareholder.

**Acquisition and disposal of subsidiary companies**

(i) On 31 August 2004, a subsidiary company acquired 100% of the issued capital of Australian based Bakers Maison Group consisting of :

- Bakers Maison Pty Ltd
- Bakers Maison (Australia) Pty Ltd

The cost of investment amounted to $2,813,496 and was settled by cash. The Bakers Maison Group contributed revenue of $3,553,285 to the Group and incurred loss before taxation and after taxation of $186,729 for the period from 1 September 2004 to 31 December 2004.

The total assets and liabilities as at 31 December 2004 amount to $5,742,000 and $3,111,000 respectively.

### 39. Subsidiary, associated and joint venture companies (cont'd)

(ii) On 18 October 2004, a subsidiary company acquired 51% of the issued capital of Australian based Challenge Australian Dairy Pty Ltd.

The cost of investment amounted to $9,759,450 and was settled by cash. Challenge Australian Dairy Pty Ltd contributed revenue of $12,072,628 to the Group and incurred loss before taxation and after taxation and minority interest of $363,627 and $185,450 respectively for the period from 18 October 2004 to 31 December 2004.

The total assets and liabilities as at 31 December 2004 amount to $25,798,000 and $5,775,000 respectively.

(iii) The disposal of Gardenia Bakery & Foodstuff (Tianjin) Co Ltd did not have any significant effect on the revenue and results of the Group in the current financial year.

### 40. Authorisation of financial statements for issue

These financial statements were authorised for issue in accordance with a resolution duly passed by the directors on 8 March 2005.

The Group's major properties as at 31 December 2004 are:

| Name of building/location | Description | Tenure of land |
|---|---|---|
| **(a) Properties in Singapore** | | |
| #09-01 to #09-04<br>Fook Hai Building<br>Singapore | Office Use | 99 year lease from 18 January 1972 |
| 224 Pandan Loop<br>Singapore | Bakery and office premises | 19-year lease from July 1991 with right to extend for further 30 years |
| 230A Pandan Loop<br>Singapore | Cold store and office premises | 17-year lease from August 1993 with right to extend for further 30 years |
| 230B Pandan Loop<br>Singapore | Warehouse, bakery and office premises | 30-year lease from October 1981 |
| 263 Pandan Loop<br>Singapore | Spice grinding and blending operations and office premises | 30-year lease from May 1982 with right to extend for further 30 years |
| No. 1 Fishery Port Road<br>Singapore | Cold store, warehouse and office premises | 30-year lease from March 2003 |
| No. 9 Fishery Port Road<br>Singapore | Cold store and office premises | 30-year lease from March 1983 |
| **(b) Properties in Malaysia** | | |
| Lot 3 Jalan Gergaji 15/14<br>40000 Shah Alam, Selangor<br>Darul Ehsan, Malaysia | Bakery and office premises | 99-year lease from September 1984 |
| Lot 3 Jalan Pelabur 23/1<br>Seksyen 23, Shah Alam,<br>Selangor Darul Ehsan<br>Malaysia | Bakery and office premises | 99-year lease from July 1991 |
| Lot No. 3803<br>Mukim Klang, Daerah Klang,<br>Selangor Darul Ehsan, Malaysia | Bakery and office premises | Freehold |
| No. 23 & 25 Jalan PJS<br>11/16, Sunway Technology Park,<br>Bandar Sunway<br>46150 Petaling Jaya<br>Selangor Darul Ehsan, Malaysia | Bakery and office premises | 99-year lease from January 1997 |

The Group's major properties as at 31 December 2004 are:

| Name of building/location | Description | Tenure of land |
|---|---|---|
| 101-A, Lot PT 26<br>Pekan Desa Puchong<br>Petaling Selangor<br>Malaysia | Bakery and office premises | 99-year lease from October 1997 |

## (c) Properties in China

| | | |
|---|---|---|
| Yuan Hong Industrial Park<br>Fuqing, Fujian Province | Feed processing and office premises | 50-year lease expiring 2050 |

## (d) Properties in Australia

| | | |
|---|---|---|
| Lot 1 & 2 on Plan of Subdivision 083535<br>RMB 2048 Parnell Road<br>Cobram, Victoria 3644 | Dairy Farming | Freehold |
| Lot 2 on Plan of Subdivision 322627H<br>RMB 2048 Parnell Road<br>Cobram, Victoria 3644 | Dairy Farming | Freehold |
| Lot 2 on Plan of Subdivision 093136<br>RMB 2048 Parnell Road<br>Cobram, Victoria 3644 | Dairy Farming | Freehold |
| Lot 2 on Plan of Subdivision 449539V<br>RMB 2048 Parnell Road<br>Cobram, Victoria 3644 | Dairy Farming | Freehold |
| Willow Grove Road<br>Crown Allotment 32 and 33<br>Trafalgar, Victoria 3824 | Piggery Farming | Freehold |
| Beenak Road<br>Seville, Victoria 3139 | Piggery Farming | Freehold |
| Huntly Farm No. 1 and 2<br>Bendigo-Tennyson Road<br>Huntly, Victoria 3351 | Piggery Farming | Freehold |
| Sunraysia Highway<br>St. Arnaud Unit 1<br>St. Arnaud, Victoria 3478 | Piggery Farming | Freehold |

The Group's major properties as at 31 December 2004 are:

| Name of building/location | Description | Tenure of land |
|---|---|---|
| Nelson Road<br>St Arnaud Units 2 & 3<br>St Arnaud, Victoria 3478 | Piggery Farming | Freehold |
| Gre Gre<br>(Northern and Southern Property)<br>Carrolls Bridge Road<br>Gre Gre, Victoria 3478 | Piggery Farming | Freehold |
| Corowa Piggery<br>Hudsons Road, Corowa<br>New South Wales 2646 | Piggery Farming | Freehold |
| Bungowannah<br>Howlong Road Bungowannah<br>New South Wales | Piggery Farming | Freehold |
| Corowa Mill<br>Corowa, New South Wales 2646 | Feedmilling | Freehold |
| Balpool 1 & 2<br>Balpool Stn<br>Balpool Lane Moulamein<br>New South Wales 2733 | Piggery Farming | Freehold |
| Lot 17, LP42510<br>13-15 Thomas Street<br>Laverton, North Victoria | Abattoir | Freehold |

# STATISTICS OF STOCKHOLDINGS
as at 14 March 2005

| | | |
|---|---|---|
| Authorised Share Capital | : | $400,000,000 |
| Issued and Fully paid-up Capital | : | $175,905,186 |
| Class of Shares | : | Ordinary Shares of $0.40 with equal voting rights |

## Analysis of Stockholders by Size of Stockholdings

| Size of Holdings | No. of Stockholders | % | No. of Stock Units | % |
|---|---|---|---|---|
| 1 - 999 | 407 | 7.84 | 70,559 | 0.02 |
| 1,000 - 10,000 | 3,803 | 73.25 | 15,442,622 | 3.51 |
| 10,001 - 1,000,000 | 965 | 18.58 | 44,333,899 | 10.08 |
| 1,000,001 and above | 17 | 0.33 | 379,915,886 | 86.39 |
| | 5,192 | 100.00 | 439,762,966 | 100.00 |

## List of Twenty Largest Stockholders

| S/No. | Stockholders' Name | No. of Stock Units | % |
|---|---|---|---|
| 1. | Andree Halim @Liem Sien Tjong @ Liem Sien Tjiong | 187,594,152 | 42.66 |
| 2. | UOB Kay Hian Pte Ltd | 60,579,820 | 13.78 |
| 3. | Citibank Nominees Singapore Pte Ltd | 45,701,442 | 10.39 |
| 4. | Goi Seng Hui | 24,103,750 | 5.48 |
| 5. | OCBC Securities Private Ltd | 9,381,342 | 2.13 |
| 6. | Ee Hock Leong Lawrence | 8,404,000 | 1.91 |
| 7. | United Overseas Bank Nominees Pte Ltd | 7,900,512 | 1.80 |
| 8. | DBS Nominees Pte Ltd | 7,566,600 | 1.72 |
| 9. | Southern Nominees (S) Sdn Bhd | 7,500,000 | 1.71 |
| 10. | Chip Lian Investments Pte Ltd | 6,831,000 | 1.55 |
| 11. | Lee Kah Bao | 3,500,000 | 0.80 |
| 12. | OCBC Nominees Singapore Pte Ltd | 3,203,004 | 0.73 |
| 13. | HL Bank Nominees (S) Pte Ltd | 2,570,000 | 0.58 |
| 14. | Yee Seow Leng | 1,500,000 | 0.34 |
| 15. | Tan Kong King | 1,250,000 | 0.28 |
| 16. | Tan Siew Keng Christina | 1,240,000 | 0.28 |
| 17. | Phillip Securities Pte Ltd | 1,090,264 | 0.25 |
| 18. | Lim Sou Ping | 879,000 | 0.20 |
| 19. | DBS Vickers Securities (S) Pte Ltd | 771,001 | 0.18 |
| 20. | Merrill Lynch (Singapore) Pte Ltd | 721,500 | 0.16 |
| | | 382,287,387 | 86.93 |

## Substantial Stockholders

| | Direct Interest | | Deemed Interest | | Total Interest | |
|---|---|---|---|---|---|---|
| Substantial Shareholder | No. of Shares | % | No. of Shares | % | No. of Shares | % |
| Andree Halim | 244,492,690 | 55.60 | - | - | 244,492,690 | 55.60 |
| Watford Investments Ltd | 42,383,712 | 9.64 | - | - | 42,383,712 | 9.64 |
| Goi Seng Hui | 24,103,750 | 5.48 | - | - | 24,103,750 | 5.48 |
| Didi Dawis* | 3,437,000 | 0.78 | 42,383,712 | 9.64 | 45,820,712 | 10.42 |
| Saiman Ernawan* | - | - | 42,383,712 | 9.64 | 42,383,712 | 9.64 |

* *Mr Didi Dawis and Mr Saiman Ernawan are deemed to have an interest in the stock units beneficially owned by Watford Investments Ltd by virtue of Section 7 of the Companies Act, Cap. 50.*

# STATISTICS OF WARRANTS

as at 14 March 2005

## Analysis of Warrantholders by Size of Warrantholdings

| Size of Holdings | No. of Warrantholders | % | No. of Warrants | % |
|---|---|---|---|---|
| 1 - 999 | 43 | 4.71 | 20,643 | 0.02 |
| 1,000 - 10,000 | 769 | 84.32 | 2,543,876 | 2.89 |
| 10,001 - 1,000,000 | 93 | 10.20 | 9,116,286 | 10.36 |
| 1,000,001 and above | 7 | 0.77 | 76,271,788 | 86.72 |
| | 912 | 100.00 | 87,952,593 | 100.00 |

## List of Twenty Largest Warrantholders

| S/No. | Warrantholders' Name | No. of Warrants | % |
|---|---|---|---|
| 1. | UOB Kay Hian Pte Ltd | 56,920,788 | 64.72 |
| 2. | OCBC Securities Private Ltd | 5,723,250 | 6.50 |
| 3. | Goi Seng Hui | 4,820,750 | 5.48 |
| 4. | Lee Kah Bao | 4,159,000 | 4.73 |
| 5. | DBS Vickers Securities (S) Pte Ltd | 1,648,000 | 1.87 |
| 6. | Southern Nominees (S) Sdn Bhd | 1,500,000 | 1.71 |
| 7. | Yee Seow Leng | 1,500,000 | 1.71 |
| 8. | Ee Hock Leong Lawrence | 851,000 | 0.97 |
| 9. | Citibank Nominees Singapore Pte Ltd | 657,750 | 0.75 |
| 10. | Tan Kong King | 650,000 | 0.74 |
| 11. | United Overseas Bank Nominees Pte Ltd | 569,500 | 0.65 |
| 12. | HL Bank Nominees (S) Pte Ltd | 520,000 | 0.59 |
| 13. | Toh Ong Tiam | 420,000 | 0.48 |
| 14. | Chua Keng Hiang | 400,000 | 0.45 |
| 15. | Tan Kok Chi | 369,000 | 0.42 |
| 16. | DBS Nominees Pte Ltd | 341,100 | 0.39 |
| 17. | Soon Kai Chung | 338,000 | 0.38 |
| 18. | Tan Siew Keng Christina | 222,000 | 0.25 |
| 19. | Lim Poh Fah Victor | 179,000 | 0.20 |
| 20. | Lim Sou Ping | 176,000 | 0.20 |
| | | 81,965,138 | 93.19 |

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at No. 224 Pandan Loop, Singapore 128411 on 29 April 2005 at 11.00 a.m. to transact the following business:

## Ordinary Business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 December 2004 and the Auditors' Report thereon. (Resolution 1)

2. To declare a first and final dividend of 5% (2 cents per stock unit) less income tax at 20% in respect of the year ended 31 December 2004. (Resolution 2)

3. To re-elect the following Directors:

| | | | |
|---|---|---|---|
| (a) | Ms Tarn Teh Chuen | (retiring under Article 94 of the Articles of Association) | (Resolution 3a) |
| (b) | Mr Kelvin Chia Hoo Khun | (retiring under Article 94 of the Articles of Association | (Resolution 3b) |
| (c) | Mr Phua Bah Lee | (retiring under Section 153(6) of the Companies Act, Cap. 50) | (Resolution 3c) |

4. To approve Directors' fees of $145,200 for the year ended 31 December 2004 (2003: $118,500). (Resolution 4)

5. To re-appoint Ernst & Young as Auditors of the Company and to authorise Directors to fix their remuneration. (Resolution 5)

6. To transact any other ordinary business of the Company which may be properly brought forward. (Resolution 6)

## Special Business

To consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

7. "That authority be and is hereby given to the Directors of the Company to:

   (a) (i) issue shares in the capital of the Company ("shares") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

   (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force, Provided that:

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50% of the issued share capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to members of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 20% of the issued share capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited - “SGX-ST”) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of issued share capital shall be based on the issued share capital of the Company at the time this Resolution is passed, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities or share options which are outstanding or subsisting at the time this Resolution is passed; and

(ii) any subsequent consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and

(4) contingent upon any new shares being issued and being credited as fully paid, the same shall be converted immediately into stock units of the Company, transferable in amounts and multiples of $0.40 each ranking pari passu in all respects with the existing stock units of the Company.” (Resolution 7)

8. “That

(a) the Directors be and are hereby authorised to offer and grant share options and to allot and issue such number of shares as may be required to be issued pursuant to the exercise of share options in accordance with the terms and conditions of the QAF Limited Share Option Scheme 2000; and

(b) contingent upon any new shares being issued and being credited as fully paid, the same shall be converted immediately into stock units of the Company, transferable in amounts and multiples of $0.40 each ranking pari passu in all respects with the existing stock units of the Company.” (Resolution 8)

## NOTICE OF BOOKS CLOSURE DATE

NOTICE IS HEREBY GIVEN that the Transfer Books and Register of Members will be closed on 11 May 2005 for the purpose of determining stockholders' entitlements to the first and final dividend of 5% (2 cents per stock unit) less income tax of 20% for the financial year ended 31 December 2004. Duly completed transfers received by the Company's Registrar, Barbinder & Co Pte Ltd at 8, Cross Street, #11-00 PWC Building, Singapore 048424 up to 5.00 p.m. on 10 May 2005 will be registered before entitlements to the dividends are determined. Payment for the dividend shall be made on 20 May 2005.

Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with stock units at 5.00 p.m. on 10 May 2005 will be entitled to the dividend.

By Order of the Board

LEE WOAN LING (Ms)
Company Secretary

Singapore, 8 April 2005

**Explanatory Notes:**

i) For Ordinary Resolutions:

3(a) – Ms Tarn Teh Chuen is an executive Director of the Company.

3(b) - Mr Kelvin Chia Hoo Khun is a non-executive independent Director and the chairman of the Audit Committee of the Company.

3(c) - Mr Phua Bah Lee is a non-executive Director and a member of the Audit Committee of the Company. As Mr Phua is over 70 years of age, S.153(6) of the Companies Act requires annual re-election of him as a Director at each Annual General Meeting of the Company. Mr Phua is considered by the Board as an independent Director and will remain as a member of the Audit Committee upon re-election.

Further information on the above Directors can be found on page 10 and 11 of the Annual Report.

ii) Ordinary Resolutions 7 and 8, if passed will, unless otherwise revoked or varied at a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company.

iii) Ordinary Resolution 8 authorises the Directors to issue shares pursuant to the exercise of options under the QAF Limited Share Option Scheme 2000 which was approved by the members of the Company on 12 May 2000. Further information on the key terms of the said Share Option Scheme 2000 can be found on page 41 of the Annual Report. Authority under Resolution 8 is in addition to the general authority to issue shares and/or convertible securities sought under Resolution 7.

**Note:**
A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or two proxies to attend and vote in his/her stead. Such proxy need not be a member of the Company. The instrument of appointing a proxy or proxies, duly executed, must be deposited at the Registered Office of the Company at 150 South Bridge Road, #09-04 Fook Hai Building, Singapore 058727, at least 48 hours before the time fixed for holding the meeting.

**PROXY FROM**
Annual General Meeting of QAF Limited

I/We ______________________________

of ______________________________

being a Member/Members of the abovenamed Company, hereby appoint (i) ______________________________

of ______________________________ or (ii) ______________________________

of ______________________________

or failing him/her the Chairman of the Meeting as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on 29 April 2005 at 11.00 a.m. and at any adjournment thereof. I/We direct my/our proxy to vote (see Note 3) for or against the Resolutions to be proposed at the Meeting as hereunder indicated.

| NO. | RESOLUTIONS | For | Against |
|---|---|---|---|
| 1. | To adopt the Directors Report and Accounts. | | |
| 2. | To declare a first and final dividend of 5% (2 cents per stock unit). | | |
| 3. | To re-elect Directors:<br>(a) Ms Tarn Teh Chuen | | |
| | (b) Mr Kelvin Chia Hoo Khun | | |
| | (c) Mr Phua Bah Lee | | |
| 4. | To approve Directors' fees. | | |
| 5. | To re-appoint Ernst & Young as Auditors of the Company. | | |
| 6. | To transact any other ordinary business of the Company. | | |
| 7. | General Authority to issue shares and/or convertible securities. | | |
| 8. | Authority to issue shares pursuant to the Share Option Scheme 2000. | | |

Signed this ______________ day of ______________ 2005 by:

| Total Number of Shares in: | No. of Shares |
|---|---|
| a) CDP Register | |
| b) Register of Members | |

______________________________
Signature of Member(s) or Common Seal

**Notes**

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company and where there is more than one proxy, the number of Stock Units to be represented by each proxy must be stated.

2. This Proxy Form must be signed by the appointor or his/her duly authorised attorney or, if the appointor is a body corporate, signed under its common seal or under the hand of its attorney or a duly authorised officer.

3. Please indicate with an 'X' in the appropriate box against each Resolution how you wish your proxy to vote. If this Proxy Form is returned without any indication as to how the proxy shall vote, the proxy will vote or abstain as he thinks fit.

4. This instrument appointing a proxy [together with the power of attorney (if any) under which it is signed or a certified copy thereof, must be deposited at the office of the Company at 150 South Bridge Road, #09-04 Fook Hai Building, Singapore 058727 not less than 48 hours before the time fixed for holding the Annual General Meeting.

5. Please insert the total number of Stock Units held by you. If you have Stock Units entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Stock Units. If you have Stock Units registered in your name in the Register of Members, you should insert that number of Stock Units. If you have Stock Units entered against your name in the Depository Register and Stock Units registered in your name in the Register of Members, you should insert the aggregate number of Stock Units entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Stock Units held by you.

6. The Company shall be entitled to reject this instrument of proxy if it is incomplete, not properly completed or illegible or where the true intention of the appointor are not ascertainable from the instructions of the appointor specified in this instrument of proxy. In addition, in case of members whose Stock Units are deposited with The Central Depository (Pte) Limited ("CDP"), the Company may reject any instrument of proxy lodged if such member is not shown to have Stock Units entered against his name in the Depository Register 48 hours before the time fixed for holding the Annual General Meeting as certified by CDP to the Company.

------------------------------ Fold along this line (1) ------------------------------

Please
affix
postage
stamp

The Company Secretary
QAF Limited
150 South Bridge Road
#09-04 Fook Hai Building
Singapore 058727

------------------------------ Fold along this line (2) ------------------------------

Designed and produced by Meta Fusion

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