# A Trusted CHOICE

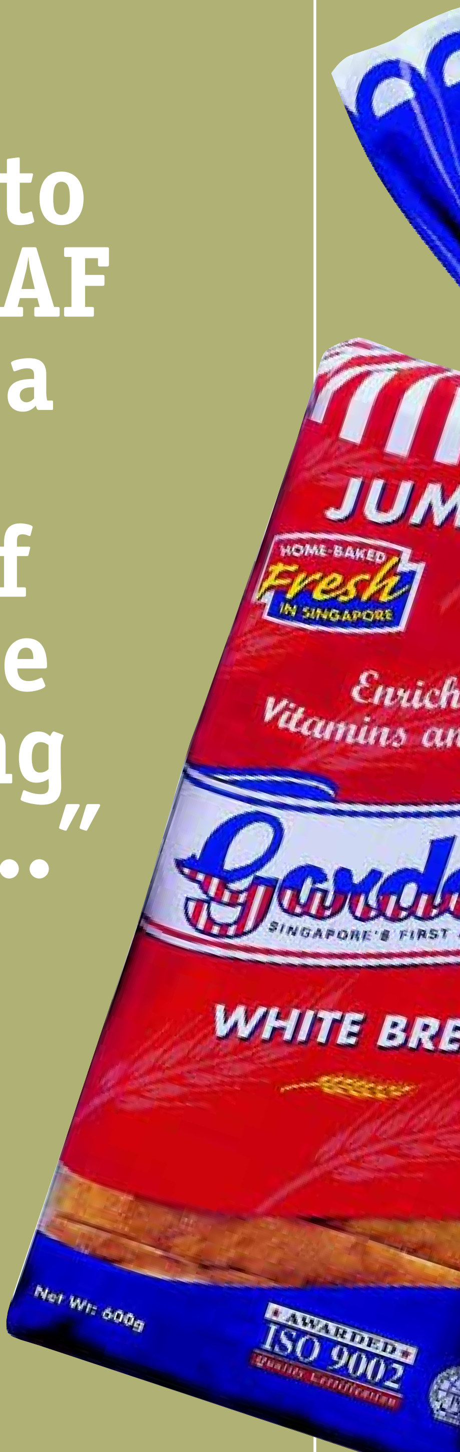
annual report 2003


QAF LIMITED

# Contents

# CHAIRMAN'S REVIEW

**"I am most pleased to announce that the QAF Group has achieved a Profit After Tax and Minority Interests of $32.6 million for the financial year ending 31 December 2003...."**



Operating conditions in 2003 were very challenging for the QAF Group. The Iraq war and the SARS outbreak in the first half of 2003, recession, unemployment and reduced disposable incomes all led to poor consumer sentiments. One of the worst droughts in Australian history and volatility of exchange rates also led to high costs for the Group's Primary Production and Trading segments.

I am most pleased to announce that the QAF Group has achieved a Profit After Tax and Minority Interests of $32.6 million for the financial year ending 31 December 2003 which is a significant increase of 78% over that of financial year ending 31 December 2002.

The economic recovery in the region is building up in momentum and the devastating effects of the drought in Australia also seem to be abating. The Group's unique position in the regional food industry is now established and this should enable the Group to take advantage of the expected recovery.

The Directors are pleased to recommend a first and final dividend of 2.0 cents per stock unit less tax at 20% for the financial year ended 31 December 2003.

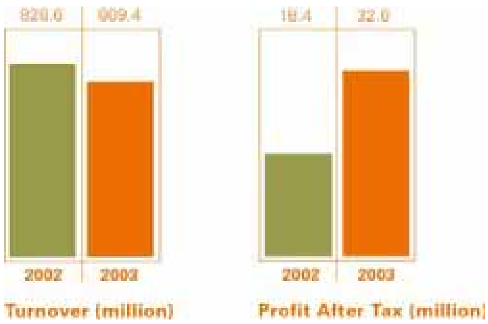
During the course of the year, one of our Directors, Dr Siew Teck Woh, retired from the Board of QAF. I would like to thank Dr Siew for his years of contribution to the Board and wish him the best. The Board of Directors and myself welcome Mr Andree Halim to the Board of QAF and his appointment also as Vice-Chairman of the Board. Mr Halim has many years of experience as a Board member of several large regional companies and I am sure that QAF will benefit from his insights and experience.

Last, but not least, I would like to express my thanks to all those who have contributed to the success of the QAF Group - stockholders, bankers, customers, employees, principals, suppliers and business associates.

Didi Dawis
*Chairman*
8 March 2004

# GROUP MANAGING DIRECTOR'S REPORT

**"...the Group's bakery operations in Malaysia and the Philippines as well as QAF Meats, the fully integrated producer of pork in Australia, saw increased sales over that of FY2002..."**




2003 was one of the most challenging years for the QAF Group. The negative effects of the SARS epidemic and the Iraq war in the first half of the year as well as threats of terrorist activities were felt by many sectors of the regional economies. Consumer sentiments, especially in Singapore, were affected also by an economic recession and a high rate of unemployment. Volatility in exchange rates and the devastating effects of one of the worst droughts in Australia's history have also led to the increase of production costs to unprecedented levels.

Group turnover for the financial year ending 31 December 2003 ('FY2003') was $809.4 million and this is a 2% decline when compared to Group turnover of $828.6 million for the financial year ending 31 December 2002 ('FY2002'). This decline resulted mainly from the deconsolidation of the operating results of Shop N Save Pte Ltd, the Group's supermarket arm, upon its sale on 14 November 2003. There was also a reduction in the volume of commodities trading. However, the Group's bakery operations in Malaysia and the Philippines as well as QAF Meats, the fully integrated producer of pork in Australia, saw increased sales over that of FY2002. The Gardenia operations in both Malaysia and the Philippines saw increases in sales with the successful launching of new products as well as from significant gains in market shares.

Group Profit Before Taxation and Minority Interests declined by 67% to $8.5 million for FY2003 as compared to $25.6 million for FY2002. This decline was mainly attributable to losses incurred by QAF Meats of Australia which faced high costs of animal feed which were caused by one of the worst droughts in Australia's history. Selling prices of pork too were also depressed during the year due to dumping from farmers who were exiting from the industry. The operating losses of QAF Meats were also exacerbated by the sharp appreciation of the Australian dollar which led to higher losses upon translation to Singapore dollars.

In line with changes in the tax laws of Australia in 2003, the QAF Meats group of companies has been formed as a tax consolidated group. As a result of the revised tax legislation, the consolidated QAF Meats group of companies has received a one-off reduction of deferred tax liabilities. This, plus the fact that the exceptional gains of the QAF Group in FY2003 being not taxable as they are capital in nature, have led to a net tax credit to the QAF Group which amounts to $27.9 million approximately for FY2003 as compared to a tax charge of about $4.0 million for FY2002. As a result, the Group has recorded a very significant increase in Group Profit After Tax and Minority Interests to $32.6 million for FY2003, a 78% increase over that of the previous financial year's $18.4 million.

The Group also sold its entire interest in Gardenia Foods (Thailand) Ltd ('GFT'), which operated the Gardenia bakery operations in Thailand, in June 2003 with an option to further convert some outstanding loans to GFT to shares in GFT in the event that GFT undergoes an initial public offering of its shares on the Stock Exchange of Thailand at some point in the future. The purchaser is now operating GFT as the sole franchisee and manufacturer of the "Gardenia" range of bakery products in Thailand.

On 14 November 2003, the Group sold its entire 51% interest in Shop N Save Pte Ltd ('SNS') which operates the "Shop N Save" chain of supermarket outlets in Singapore, to Cold Storage Singapore (1983) Pte Ltd. The supermarket business operated by SNS is considered to be a non-core business of the Group. While its annual turnover is relatively large, SNS is not a major contributor to the Group's overall profits. The divestment of SNS is a good opportunity for the Group to realise a good return on its investment.

Despite the very difficult situation, QAF Meats has maintained its position as the leading producer of pork in Australia and the region. In addition to having the largest share in the domestic Australian market, QAF Meats has maintained its dominant position as the top exporter of Australian pork. It also has the largest share of Australian pork exports to the main markets of Singapore and Japan. The company's scale of production and its fully integrated operations comprising of stockfeed milling, pig production, abattoir operations, boning and cutting enable it to maintain its competitive advantage.

Grain prices have now declined significantly, due to a favourable harvest at the end of 2003 and the beginning of 2004. This will result in a reduction of feed costs which, in turn, will have a favourable impact on the performance of QAF Meats. The major effects of the improved performance is anticipated to take place towards the end of the second quarter of the financial year ending 31 December 2004 ('FY2004') when the full impact of the reduced feed costs translate into significantly lower costs of production. Several challenges still remain for QAF Meats, one of which is the sharp appreciation of the Australian dollar which affects export sales. However, I am confident that QAF Meats will maintain its competitive edge as one of the largest and most integrated pork producer in the region offering high quality and fresh products at the most competitive prices.


The Gardenia bakery operations have performed very well despite intense competition. In particular, the Gardenia bakery operations in Malaysia under Gardenia Bakeries (KL) Sdn Bhd ('GBKL') have made even further progress from its number 1 position in the Malaysia market. Its current 7 production lines, in 5 separate plants, are now running at full capacity. The Company is now installing their 8th production line which is slated to come on-stream in the middle of this year. The combined capacities of all 8 production lines will entrench further GBKL's position as the largest bakery operation not only in Malaysia but in the whole of South East Asia. Complementing its large production capability, GBKL has also established a wide distribution network consisting of about 16,000 distribution points which it operates with its own sales force and delivery vehicles. This ensures that it provides only the freshest and the best quality products at convenient locations for its customers throughout Peninsular Malaysia. The company is now in the best position to leverage on this extensive distribution system by also distributing other products to its customers.

GBKL has successfully launched its latest Gardenia Squiggles range of cream rolls in 2003. Gardenia is now not only the number 1 brand of packaged bread in the Malaysian market but is now also one of the top brands in the snacks and cream roll market. The company will now explore whether it can produce and distribute other bakery type products in the near future.

Gardenia Bakeries (Philippines) Inc ('Gardenia Philippines') has also performed well and increased its market share in the Metro Manila market to about 43%. Gardenia is the top brand of bakery products in the said market. The company has successfully launched new products to serve the specific needs of the different market segments. It has also made effective use of its extensive distribution network to distribute third-party products such as wafers and biscuits, thus increasing the return on investment. It is heartening to note that the second production line that was commissioned only in 2002 is now running at close to full capacity due to the rapid rise in sales. As such, the company is now planning for the installation of its third fully automated line which is targeted for commissioning within the first half of 2005. Based on present trends, we expect Gardenia Philippines to achieve even higher sales and profits for 2004.


The Group's Singapore bakery operations performed well despite competition from other manufacturers and a proliferation of retail bake shops. Both Gardenia and Bonjour are the number 1 and number 2 brands, respectively, in the Singapore market. New products such as the Gardenia High Fibre White Bread plus Omega and Inulin were developed and launched to cater to an increasingly sophisticated and health conscious market. Profitability has also increased as a result of greater efficiencies in production and distribution.

The strength, popularity and high customer awareness of the Gardenia brand in the regional markets are attested to by the award of "Category Leader" by Superbrands for the Gardenia brand in Singapore as well as the award of "Superbrand" status for Gardenia in Malaysia for 2 straight years.

The wholesaling and distribution companies, Ben Foods (S) in Singapore and Ben Trading in Malaysia, however, faced very difficult markets in 2003. Their business was adversely affected by the SARS outbreak in the first half of the year when their customers in the hospitality, food services and aviation industries faced sharp drops in business. Margins for both Ben Foods and Ben Trading were also negatively affected by the sharp appreciation of the Australian, New Zealand, Euro and Swiss Franc currencies versus their currencies of sales which were denominated in the US, Singapore and Ringgit currencies. Both companies are now rationalising their products and developing new supply sources for their products.

The integration of the Group's logistics and warehousing arm in Singapore, NCS Cold Stores with Ben Foods and the recent expansion and rationalisation of the former's facilities have led to improved profitability. NCS Cold Stores enjoyed almost full occupancy throughout 2003 despite the SARS crisis during the first half of 2003.

The regional economies have been forecasted to recover in 2004 and this should lead to improved consumer sentiments. The lowering of feed costs and the anticipated improvement of selling prices should result in QAF Meats achieving significant improvements in its operating performance although the volatility of currencies exchange rates, especially the Australian dollar, may have some dampening effect on its exports. The Gardenia bakery divisions should also continue to perform, especially the operations in Malaysia and the Philippines. New production lines will be installed and new products are being planned for launching. These developments will lead to a better operating performance for the QAF Group in 2004.

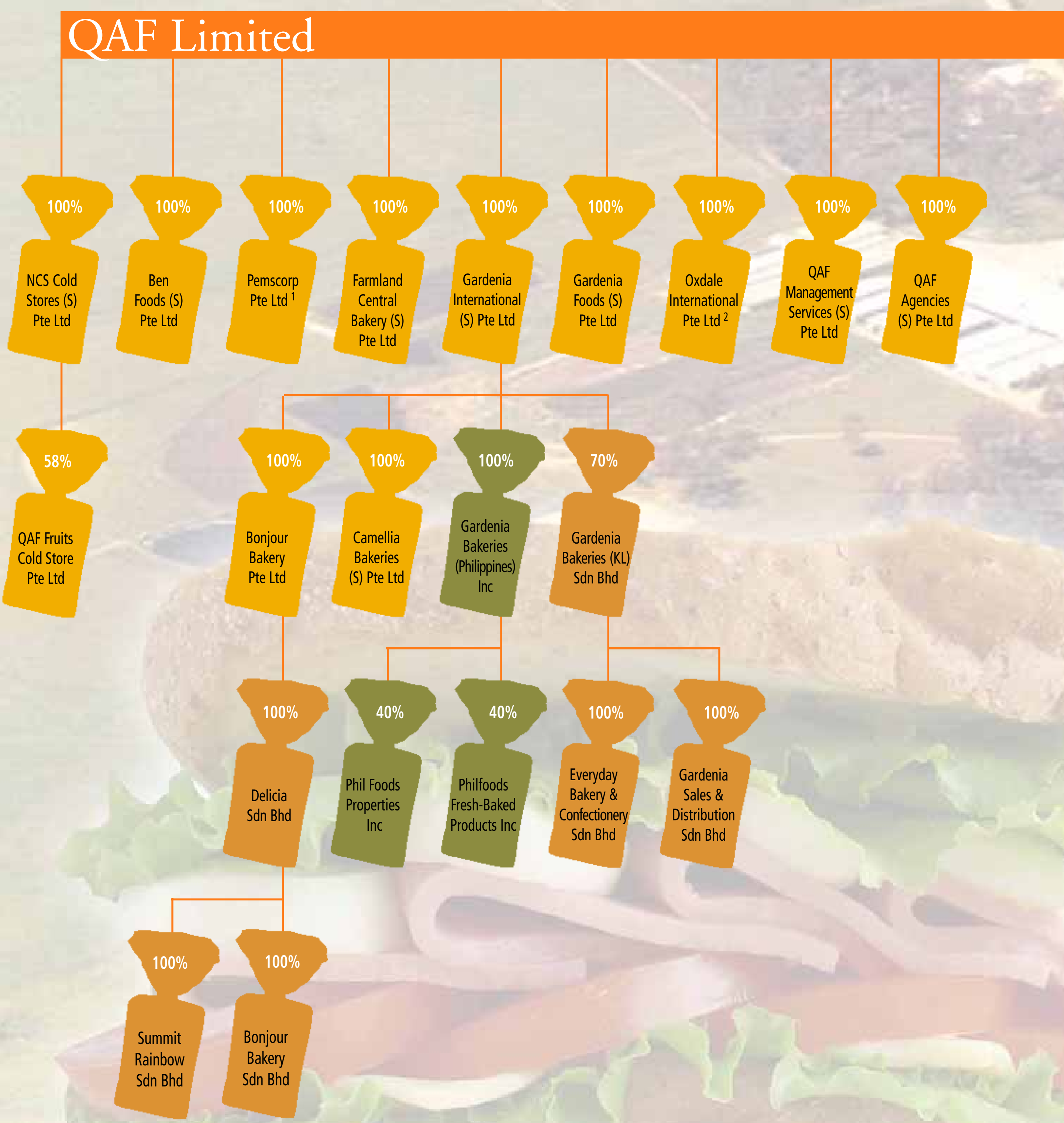
For 2004 and beyond, management intends to acquire and develop new core business segments to add on to the Group's existing businesses so as to ensure sustainable growth in both turnover and profitability.

Another notable event which occurred in FY2003 was a major change in the shareholdings of QAF Limited. In August 2003, Mr Andree Halim purchased a total of approximately 55.5% of the then issued share capital of the Company from the KMP Group and Mr Didi Dawis. This led to a General Offer ('GO') being made for all the Stocks and Warrants of the Company. The GO was completed in October 2003. On behalf of the Board of Directors and the management of the Group, I would like to extend a very warm welcome to Mr Andree Halim to the Board of Directors. We would also like to congratulate him on his appointment as Vice Chairman of the Board of Directors. I know that the Group can count on his vast experience and contacts in the region and look forward to his support. I would also like to thank Dr Siew Teck Woh for his past service to the Board and wish him the best on his retirement from the Board.

Tan Kong King
*Group Managing Director*
8 March 2004

# GROUP STRUCTURE

as at 8 March 2004




100% Singfood Investment Pte Ltd
100% Spices of the Orient Pte Ltd
100% Hamsdale International Pte Ltd
100% Ben Foods* (Malaysia) Sdn Bhd
100% Ben Fortune Pastry Manufacturing (M) Sdn Bhd
100% Ben (Malaysia) Holdings Sdn Bhd
100% Osa Mktg Associates* (M) Sdn Bhd
100% Fujian Dongjia Feeds Co Ltd
100% Auspeak Int. Livestock Farming (Fujian) Co Ltd
100% Hamsdale Australia Pty Ltd
100% Ben Trading (Malaysia) Sdn Bhd
100% Ben Foods (East Malaysia) Sdn Bhd
65% Millif Industries Sdn Bhd
100% Precious Fortune Ltd
100% QAF Meat Industries Pty Ltd
100% QAF Feeds Pty Ltd
100% Brooksbank Properties Pty Ltd
51% Diamond Valley Pork Pty Ltd
100% Gardenia Hong Kong Ltd
100% Gardenia Bakery & Foodstuff (Tianjin) Co Ltd
100% QAF Meat Processors Pty Ltd
Legend
Singapore-based
Malaysia-based
Philippines-based
Australia-based
British Virgin Island-based
Hong Kong/China-based
1 formerly known as Eurofood (S) Pte Ltd
2 formerly known as Maple Bakeries (S) Pte Ltd
* under liquidation

# BOARD OF DIRECTORS

**Mr Didi Dawis**
Chairman

Didi Dawis, aged 58, 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 21 May 2001. 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.

**Mr Andree Halim**
Vice Chairman

Andree Halim, aged 56, 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 Ltd, a corporation listed in the Hong Kong Stock Exchange. He also holds directorship in KMP Private Ltd, an investment holding company in Singapore, and various other private enterprises.

**Mr Tan Kong King**
Group Managing Director

Tan Kong King, aged 53, was first appointed as a non-executive Director 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 segment in a new market with much potential 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 ("KMP Group") in 1981. Mr Tan has over 23 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.

**Mr Kelvin Chia Hoo Khun**
Director

Kelvin Chia Hoo Khun, aged 52, 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.

**Mr Derek Cheong Kheng Beng**
Director

Derek Cheong Kheng Beng, aged 49, was appointed as a Director on 18 January 1996 and last re-elected to the Board on 21 May 2001. 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 Group 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.

**Mr Phua Bah Lee**
Director

Phua Bah Lee, aged 71, was appointed as an independent non-executive Director on 8 January 1990. He was last re-elected to the Board on 29 May 2003. 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.

**Ms Tarn Teh Chuen**
Director

Tarn Teh Chuen, aged 44, 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 the KMP Group since 1983 as an accountant and has assumed the post as its group financial controller since 1990. She has over 14 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.

**Mr Tan Hin Huat**
Director

Tan Hin Huat, aged 51, 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.

# CORPORATE DATA

**AUDIT COMMITTEE**

Mr Phua Bah Lee

Mr Kelvin Chia Hoo Khun

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.

Rabobank International

# PRIMARY PRODUCTION

## QAF Meats Group ('QAF Meats')

Wholly-owned QAF Meats is the largest producer of pigs and pork meat in Australia and the region. QAF Meats produced about 945,000 pigs or about 71,000 MT of pig meat in 2003. It is four times larger than the next largest producer.

QAF Meats has the largest market share in Australia with an approximate 20% share and its export sales constitute about 30% of Australia's total pork exports making it also the largest Australian exporter of pork. It occupies dominant positions in the major export markets of Singapore and Japan, where its market shares are 34% and 32% respectively.

The operations of QAF Meats are fully integrated and consist of stockfeed milling, pig production, abattoir or slaughterhouse operations, deboning and meat cutting as well as distribution.

QAF Meats breeds and rears its pigs in 8 company-owned production sites which have a total area of more than 100 square kilometres (1/6 the size of Singapore). These sites are spread out in the states of New South Wales ('NSW') and Victoria. In addition, QAF Meats utilises about 50 contract growers who are independent farms under contract to QAF Meats and who breed and grow pigs on QAF Meats' behalf.

The production systems utilise the latest methods and technologies. QAF Meats has been successful in implementing the use of the latest 'state of the art' eco-shelter production system. This is an environmentally clean system where animal wastes are effectively disposed off through natural decomposition with natural bio-degradable materials such as rice husk. This system has produced an average weight gain among the animals which is above that achieved from more traditional production systems. QAF Meats also implements segregated weaning systems where disease transmission is minimised by isolation and separation as well as traditional 'birth to bacon' systems where pigs are bred and grown to the market stage on the same site. All-in-all-out ('AIAO') systems are employed which ensure that pig sheds are completely cleaned out between batches of pigs. This will reduce the incidence of disease transmission.

# PRIMARY PRODUCTION

QAF Meats owns and operates one of the largest stockfeed mills in Australia, with a capacity of more than 600,000 MT per year. This mill is situated in Corowa, NSW and this mill and a smaller facility in Balpool, NSW supply all of QAF Meats' feed requirements in addition to sales to external parties. The major raw materials such as wheat, pollard, grains and pulses are purchased directly from growers in the surrounding area which is a major grain producing region. The majority of purchases are made during the annual harvest season during the months of December and January so as to take advantage of the most competitive prices then as well as to ensure the correct quantities are bought in accordance with requirements.

The main abattoir and the deboning facility is located on site at the largest company-owned production site at Corowa. This abattoir is capable of slaughtering 925,000 heads per year and is the largest abattoir in terms of capacity within one site. This abattoir only slaughters pigs produced by QAF Meats so as to achieve the best quality of carcases and meat cuts, ensure the highest standards of hygiene and sanitation and realise the lowest possible cost.

The Corowa abattoir is one of the few export licensed abattoirs and has a USDA listing which reflects the maintenance of high world class standards with regard to hygiene and capability. Due to the highest standards of hygiene, quality and proper controls, QAF Meats' pork products have an extended shelf life and this gives it a competitive edge in export markets. There are many benefits which accrue to the operation of a centralised in-house abattoir such as greater control over quality, ability to select products which match the specific requirements of different customer segments such as weight size, fat content, age of animals, etc and this optimises revenue. Offals can also be retrieved efficiently from the company-owned abattoir and this increases the yield on each carcase. A centralised in-house abattoir also ensures on time slaughtering so that the weight of the animals is maximised and this leads to higher profit margins.

QAF Meats also operates an on-site boning facility which is fully integrated with the abattoir on one site. Production flow is synchronised by an 'on-line' computer system where different parts of the carcase are sent to separate lines where cuts are standardised. An automated packing system is also coordinated with the production flow. Increased volume resulting from automation/rationalisation of production flows and the specialisation of cuts have led to reduced wastage and lower processing costs. Deboning facilitates the sales of fresh pork to retailers as the latter tend to buy pork meat in boxed forms. It is also necessary for the export of pork to Japan as the country imports chilled meat mainly in the form of specific cuts.

In order to enhance its marketing and distribution capabilities, QAF Meats, through a joint-venture subsidiary Diamond Valley Pork Pty Ltd, opened a new abattoir in Laverton, Melbourne in 2003.

This abattoir specialises in the slaughter of sows and has a capacity of 250,000 heads per year. It not only provides slaughter facilities for QAF Meats but also supplies slaughter services for other farms and wholesalers. QAF Meats began to export frozen sow meat to Japan in 2003 and this is the first time that any Australian producer has done so. A new market segment has been developed. This abattoir has enhanced the marketing and distribution capability of QAF Meats for both the Australian and international markets.

The operations of QAF Meats are supported by an on-site National Association of Testing Authority ('NATA') accredited laboratory and there are in existence developed and integrated risk procedures to ensure the highest standards of hygiene and food safety. QAF Meats has an ISO9000/2000 Certification and work within the guidelines of the Australian Quarantine and Inspection Service ('AQIS') approved Meat Safety and Quality Assurance Standard. Under this Quality Assurance programme, standard operating procedures have been developed and implemented for various activities such as cleaning and sanitation, personal hygiene, water supply, animal welfare, training, slaughter, boning and chilling.

The Artificial Insemination ('AI') Centre is now fully operational. QAF Meats has implemented full artificial insemination in its breeding operations with the goal of improving productivity and the quality of its animals. Research in QAF Meats' Microbiology and Meat Science Laboratory, a fully Australian government accredited facility, is on going to develop products and distribution systems of the safest and highest quality for both domestic and international customers. The Group is also conducting research towards developing more nutritious feed and vitamin supplements.

**Review of Performance**

| | 2003 S$ | 2002 S$ | Increase/(decrease) S$ | % |
|---|---|---|---|---|
| **Sales** | 255.9m | 239.4m | 16.5m | 6.9 |
| **EBIT** | (45.0)m | (0.9)m | (44.1)m | NA |

While revenue rose by 6.9%, profitability for the financial year ended 31 December 2003 ('FY2003') was adversely affected by the effects of one of the worst droughts in Australia's history. The drought resulted in poor harvests which led to grain shortages and sharply escalated grain prices. This resulted in extreme high costs of animal feed on an unprecedented scale. Selling prices of pork were also adversely affected by dumping from farmers who were exiting the industry. The operating loss was also worsened by the sharp appreciation of the Australian dollar which exacerbated the operating loss when translated to Singapore dollars.

The cost of feed for QAF Meats has declined significantly due to a favourable grain harvest at the end of 2003. The decline in feed costs will result in a much improved performance in the first quarter of financial year 2004 ('FY2004'). The major effects of the improved performance is anticipated to take place towards the middle of FY2004 when the full impact of the reduced feed costs translate into significantly lower production costs.

# FOOD MANUFACTURING

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

The Gardenia bakery operations in Singapore, under wholly-owned subsidiary Gardenia Singapore, performed well despite keen competition from other manufacturers and the retail bake shops. The Gardenia brand continues to maintain its top position in the Singapore market with a loyal following among consumers and households.

Gardenia Singapore is successful in offering fresh, tasty and high quality products at affordable prices for its customers. New and nutritional products are constantly being developed and introduced to serve the needs of a discerning and knowledgeable market. A new product, the High Fibre White Bread ('HFW') plus Omega and Inulin (soluble fibre) was launched in March 2003 to serve consumers' increasing need for healthy bakery products. This product offers the same fibre content as wholemeal bread while, at the same time, contains the healthy attributes associated with essential polyunsaturated fatty acids of Omega 3 and 6 as well as Inulin which enhances the digestive system of the consumer. This HFW product is the perfect choice for health conscious consumers of all age groups and it also retains the taste and unique softness of white bread.

Two major promotion campaigns were launched in 2003. In March 2003, an advertising and promotion programme was launched to introduce the new HFW plus Omega and Inulin. Press advertisements were placed in the Straits Times, Lianhe Zaobao and TODAY. Consumers were also given a free loaf of Gardenia California Raisin bread at all retail outlets in exchange for every 3 empty packagings of HFW. In October 2003, a similar marketing drive was launched to promote an existing product, the Fine Grain Wholemeal Bread ('FGWM') as another nutritious choice for consumers. Consumers were required to collect 4 empty packagings of the FGWM to redeem a free loaf of Fruit & Nut bread. The campaigns were successful in creating awareness for these products and have led to significantly increased sales.

Public relations activities during the year includes participation in Kids' World 2003 at the Singapore Expo from 21 to 23 March where Gardenia products were promoted to parents and their children. In September 2003, Gardenia Singapore took part in Singapore Food Expo 2003 which saw a record 520,000 visitors. The Company used the opportunity to promote the HFW Bread plus Omega and Inulin as well as to re-introduce the Focaccia. The products were very well received.

Gardenia's market leadership and strong brand affinity were reflected in her recognition as a "Superbrand" in 2002. In 2003, Gardenia was further awarded the status of "Category Leader" and was given this award in addition to its Superbrand status. This confirms its recognition as the number one brand of packaged bread in Singapore.

**Review of Performance**

| | 2003 S$ | 2002 S$ | Increase/(decrease) S$ | % |
|---|---|---|---|---|
| **Sales** | 50.5m | 49.6m | 0.9m | 1.8 |
| **EBIT** | 6.2m | 5.6m | 0.6m | 10.7 |

Revenue for FY2003 rose by 1.8% over that for FY2002 to $50.5 million. EBIT rose by 10.7% to $6.2 million for the same period. The increase in profitability was the result of greater efficiencies in production and distribution as well as product rationalisation.

Gardenia will continue to establish its top position in the packaged bread market in Singapore in 2004.

## Gardenia Bakeries (KL) Sdn Bhd ('GBKL')

70%-owned GBKL is the Malaysian arm of the Group's Gardenia bakery operations. GBKL currently operates from 5 plants which comprise a total of 4 bread production lines and 3 bun and roll lines. The combined capacities of these lines are a staggering 150 million loaves of bread per annum and 400 million pieces of buns and rolls per annum. This makes GBKL the largest bakery operation in Malaysia as well as South East Asia.

GBKL maintained its growth impetus in 2003 with turnover achieving a new record of RM275.6 million for the year. The good performance of GBKL is attributed to Gardenia's strong brand name, high product quality and an excellent distribution network which further widened to more than 16,000 distribution points in 2003. These strengths, along with strong management and control systems, are continuously reinforced by improvements in distribution logistics and sustained marketing activities.

In line with GBKL's continuing plans to widen its product range and to enter new market segments, Gardenia Squiggles, a cream-filled roll with chocolate coating, was launched in June 2003. The product, in 3 variants, was well received by consumers. In addition to Gardenia's top position in the national bread market, Gardenia has also been established as the number 1 brand in the snacks and cream roll market. GBKL's revenue base is now broadened with significant contributions coming from the sales of different bread products, buns, rolls and snack cakes.

All of GBKL's production lines in its 5 plants are now operating at full capacity as a result of the strong consumer demand for its high quality and value for money products. As such, another new fully automated production line is being

installed at its new plant at Bukit Kemuning. Commissioning of the new line is targeted for the middle of 2004. The new line will enable GBKL to create new products to serve newly identified market segments as well as provide the necessary extra production capacities for the existing product range. In addition, the new line will also allow GBKL to rationalise the production mix of its plants thereby enhancing productivity and securing gains from economies of scale.

Gardenia's dominant position in the bread and bakery products market in Malaysia was affirmed when it was awarded the "Superbrand" status for 2 years running, in 2002 and 2003.

With the expected improvement in the Malaysian economy, the outlook for 2004 is promising despite expectations of greater competition. GBKL is in a position of strength to meet the challenges in the new year. In addition to its strategy of increasing market share, continuing emphasis will also be made to improve productivity and efficiency so as to maintain profit margins.

**Review of Performance**

| | 2003 S$ | 2002 S$ | Increase/(decrease) S$ | % |
|---|---|---|---|---|
| **Sales** | 126.4m | 109.5m | 16.9m | 15.4 |
| **EBIT** | 12.0m | 8.2m | 3.8m | 46.3 |

Revenue grew by 15.4% to reach $126.4 million, a new high for GBKL. The increase in sales were mainly contributed by the new Gardenia Squiggles and other cream rolls. Profitability improved by a creditable 46.3% due to increased sales of higher margin cream rolls, buns and snack cakes.

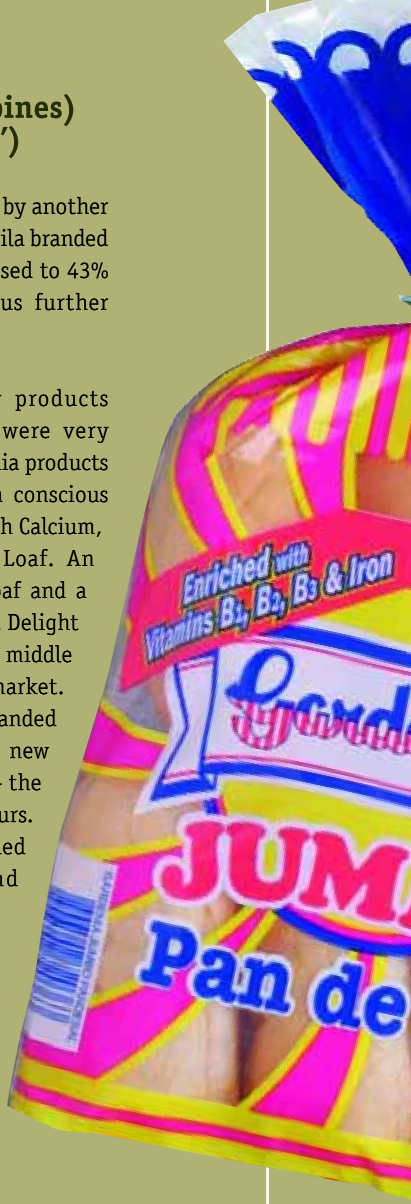
Growth in sales and profitability are expected in 2004 when the additional production line comes on-stream in the middle of the year.

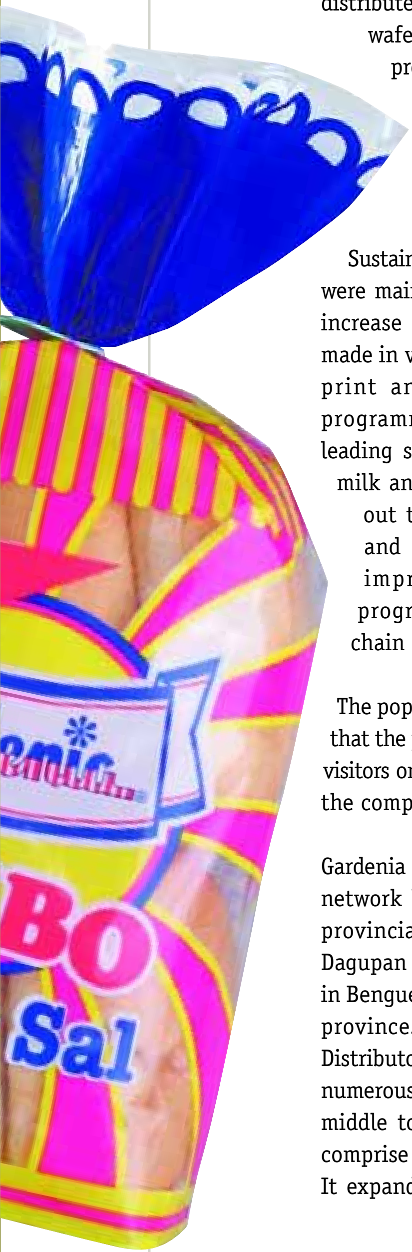
## Gardenia Bakeries (Philippines) Inc. ('Gardenia Philippines')

Gardenia Philippines increased its sales by another 23% in 2003. Its share in the Metro Manila branded packaged bread market has now increased to 43% in FY2003 from 35% in FY2002, thus further entrenching its number 1 position.

The Company has introduced new products to the market in 2003 and these were very well received by consumers. New Gardenia products which catered to the needs of health conscious consumers were introduced such as High Calcium, Carrot Raisin Loaf and the 5-Grain Loaf. An economically priced Neubake bread loaf and a lower priced Pandesal (bun) called Soft Delight Pandesal were launched to service the middle and lower income segments of the market. The filled bun category was also expanded with a new Blueberry flavour and 2 new Mini Filled Buns were also introduced – the Ube Macapuno and Choco-Choco flavours. A new line of toast snacks was added with Honey Wheat, Chocolate and Raisin Toasts.

As part of its efforts to add value to its already established distribution capability, Gardenia Philippines took over the distribution of the Munchy's range of wafer and biscuit products in the second half of 2003. Munchy's is





manufactured in Malaysia. Specific products that were distributed were Munchy's Lexus biscuits, Muzic wafer cubes and Rice Kids wafer bars. These products are complementary to the Gardenia range of bakery products which are widely distributed in supermarkets and convenience stores in the Metro Manila area.

Sustained advertising and promotion programmes were maintained in Gardenia Philippines' drive to increase its market share. Advertisements were made in various media including television, radio, print and public buses while promotional programmes involving strategic tie-ups with leading sandwich spread, cheese, noodle, sauce, milk and coffee companies were made to reach out to consumers. Pre-packaged value-packs and bundle-packs were developed so as to improve the efficiency of promotional programmes in leading supermarkets and chain stores.

The popularity of Gardenia can be seen in the fact that the plant is now visited by about 1,000 student visitors on a daily basis. Tours are conducted around the company's automated production facilities.

Gardenia Philippines strengthened its distribution network by expanding its retail coverage in key provincial areas in the north, reaching up to Dagupan City in Pangasinan province, Baguio City in Benguet Province and San Fernando in La Union province. It also launched its new Territorial Distributorship programme in Metro Manila to cover numerous small variety stores so as to reach the middle to lower income market segments which comprise the major part of the Philippines market. It expanded its house-to-house Street Marketing promotional sales programme in middle income residential areas. Gardenia is now extensively available in most of the Luzon market, leaving the Visayas, Mindanao, Bicol and Ilocos regions as its future expansion territories.

During the year, Gardenia Philippines bought a 40% interest in one of its toll manufacturers. The company was renamed Philfoods Fresh-Baked Products, Inc and is located in Pasiq, Metro Manila. Production of products which require labour intensive methods has been transferred to this plant as part of Gardenia Philippines' effort to rationalise its production processes.

During the fourth quarter of 2003, Gardenia Philippines constructed a new building which will house an additional bun production line as well as to provide a warehouse storage area for raw materials. The new line will be installed by the end of 2004 and is targeted for commissioning in the first half of 2005.

A major milestone was achieved by Gardenia Philippines when it was awarded an ISO 9001/2000 Certificate and a HACCP Certificate by Certification International in December 2003. These achievements are considered to be a first in the Philippines bread industry and reaffirm Gardenia's world class high quality standards and superior product safety processes.

As it surges to new heights, Gardenia Philippines will continue to build on its competitive strengths

ISO CERTIFIED HACCP CERTIFIED


so as to maintain continuous growth and market share improvement in 2004.

**Review of Performance**

| | 2003 S$ | 2002 S$ | Increase/(decrease) S$ | % |
|---|---|---|---|---|
| **Sales** | 22.5m | 18.3m | 4.2m | 23.0 |
| **EBIT** | 1.1m | 0.7m | 0.4m | 57.1 |

Revenue increased by 23% to S$22.5 million in 2003. Sales increase significantly as Gardenia Philippines introduced new products which were well received in the market and as it further increased its coverage of the market through more distribution points.

Profitability grew by more than 57% as the Company gained more market share and achieved gains from economies of scale.

Market share, sales and profitability are expected to continue to grow in 2004.

## Bonjour Bakery Pte Ltd

The Bonjour brand continues to maintain its market standing as the number 2 brand in Singapore for packaged loaf bread after Gardenia. Its unique range of products, such as Milk Bread, Pandan Bread, 12-Grain Loaf and Choc Chip Loaf remained the popular choices of loyal customers.

Bonjour seeks to strengthen its brand positioning by constantly developing and launching unique and innovative products of good quality.

In June 2003, Bonjour launched a new product – Traditional Bun Bread. This new product brings back fond memories for consumers who are familiar with the traditional 'fa bao' or 'toa bun'. Cotton soft and mildly sweet, this product tastes best with kaya and butter, ice cream, in the form of toasts or when simply dipped in a hot cup of coffee. The Bonjour Traditional Bun Bread was launched with newspaper advertisements in both English and Mandarin. A sampling program was organised at several MRT stations to further generate public awareness and trial. It is available at selected supermarkets, petrol marts and general retailers.

In September 2003, Bonjour expanded its distribution to the chain of BP petrol stations as part of its drive to offer customers a higher level of accessibility. It retained its profitability position for 2003.

# TRADING, DISTRIBUTION AND LOGISTICS

## Ben Foods (S) Pte Ltd ('Ben Foods') and Ben Trading (M) Sdn Bhd ('Ben Trading')

Ben Foods is the Group's wholesale food distribution company in Singapore. It has a diverse portfolio of businesses ranging from trading in meat (chilled and frozen), dairy and other food products, wine distribution to warehousing and packing. It maintains a fleet of trucks which delivers a wide range of products such as pastry, confectionery, dairy products, juice, noodles, potatoes, processed meat, sauces, soups and spreads to fast-food chains, supermarkets, wholesalers, bakeries and confectioneries, retail outlets, hotels, restaurants, in-flight kitchens and sea vessels. Ben Foods has developed its own proprietary brands such as



Farmland (processed meat products), Cowhead (dairy products), Haton (seafood products) and Orchard Fresh (juices) in addition to third-party agencies such as Delifrance, Rockingham, Campbell, Pokka and other quality food and beverage brands.

One of Ben Foods' leading proprietary brands, Cowhead, has been established as a household name in Singapore in addition to being a renowned brand in South East Asia. Cowhead products of pure creamery butter, UHT milk, cheddar cheese, condensed and evaporated milk, fresh milk and full cream milk powder are manufactured and packed under stringent quality controls in Australia and New Zealand before being shipped to the Singapore and regional markets.


In particular, the Cowhead UHT Fresh Milk in 3 variants – pure, lite and chocolate flavour, has a strong following as its nutritious and healthy attributes are suitable for children aged 6 and above. The Cowhead milk powder, which does not contain preservatives or artificial flavourings, is another popular product. Cowhead cheese products are popular as snacks and party foods and the product is also used as ingredients in baking pastries. Another Cowhead product which is winning consumer loyalty is the pure Cowhead creamery butter which is good as a wholesome spread and is one of the "must haves" for cooking and baking. The consistent premium quality of the brand can also be found in the Cowhead brand's 3-in-1 beverages that carry prime Brazilian coffee in 20 gm sachets and nutritious cereals in 30 gm sachets per pack. Several new Cowhead products have been launched in 2003 such as Cowhead dairy crackers, condensed/evaporated filled milk and 'easymelt' cheese spreads.

Over the years, Ben Foods' Cowhead brand has been established as a leading brand which offers a variety of tasty, nutritious and good quality products which are competitively priced. Amongst a clutter of competing brands, Cowhead stands on its own in terms of consumer confidence, reliability, consistency and respectability. This has been affirmed and recognised when Cowhead was awarded the 'Superbrand' status in 2003.

Ben Foods has seen a recovery in its sales in the second half of 2003 as compared to the first half when the hospitality, food services and aviation industries were adversely affected by the Iraq war and the SARS outbreak. Margins were also negatively affected by the sharp appreciation of the Australian, New Zealand, Euro and Swiss Franc currencies versus the US and Singapore dollars. The Company has since taken steps to develop new supply sources for its proprietary branded products.

The Malaysian wholesaling and distribution company, Ben Trading, faced a difficult year due to erosion of margins caused by the sharp appreciation of major foreign currencies versus the Ringgit. The company will be developing new market segments in 2004.

## Spices of the Orient Pte Ltd ('SOTO')

While domestic sales in the first half of 2003 was adversely affected by the war in the Middle East and the SARS outbreak, export sales remained strong and profitability was maintained.

SOTO's seasoning product brands have been established as favourites among consumers and several of its products such as Crispy Chicken, have been successfully listed in the supermarkets.

SOTO has participated in renowned international food exhibitions such as the Anuga Fair in Germany in 2003 where contacts with international distributors have been established. Initial shipments are now being made to the United Kingdom and Poland.

With increasing exports and the recovery of consumer sentiments in Singapore, SOTO is expected to achieve even better performance for 2004.


## NCS Cold Stores (S) Pte Ltd ('NCS')

Rationalisation of the operations of the Group's cold storage and logistics operations under NCS in 2002 has borne fruit. Despite the SARS crisis during the first half of 2003, NCS enjoyed almost full occupancy. Most of the customers of NCS have long term arrangements with NCS and this situation provides stability for the business.

NCS has completed its renovation and rationalisation programme.


THICK SLICE
HIGH FIBER
WHEAT BREAD
Gardenia
GOOD
for health

# Contents

# CORPORATE GOVERNANCE REPORT

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 at meetings of the Board and Board committees is as follows:

| | Board | | Audit Committee | | Nominating Committee | | Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| **Name** | **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 | 1 | NA | NA | NA | NA | NA | NA |
| Tan Kong King | 4 | 4 | NA | NA | 1 | 1 | NA | NA |
| Phua Bah Lee | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |
| Siew Teck Woh# | 4 | 3 | NA | NA | NA | NA | NA | NA |
| 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 | 4 | 4 | 4 | NA | NA | 1 | 1 |
| Tan Hin Huat | 4 | 4 | 4 | 4 | NA | NA | NA | NA |

** Appointed as of 11 October 2003*
*# Resigned as of 6 October 2003*

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) regularly furnishes the Directors with updates 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 his duty and responsibility properly. It is also a practice that the Group Managing Director briefs the Board of the general industry trend and outlook for the businesses of the Group from time to time.

## PRINCIPLE 2 : BOARD COMPOSITION AND BALANCE

The Board now 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 Phua Bah Lee, Mr Kelvin Chia Hoo Khun 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 13% 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 public administration perspective and 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 also responsible for the effective working of the Board as a whole, which includes, inter-alia,

- Overseeing the scheduling of Board meetings (with the assistance of the Company Secretary) to enable the Board to perform its duties responsibly
- Presiding over Board meetings, ensuring order in its proceedings and that all Directors are given the opportunity to voice their views on any issue that arises in the meetings
- Overseeing the agenda for meeting (in consultation with the Group Managing Director)
- Ensuring (with the assistance of the Company Secretary) that adequate information pertaining to the agenda for the meeting is furnished by the Management in a timely manner

## 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 reviews the independence of Directors annually in accordance with the guidelines set out in the Code.

Key information on the Directors as required under Guidance Note 4.5 of the Code is provided on page 10 and 11 of the Annual Report.

## 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 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 of 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 three 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 Executives' 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.

The Group Managing Director is engaged by way of a service contract with a fixed tenure in compliance with the Articles of the Company. The remuneration terms under the service contract was arrived at taking into account the performance of the Group, remuneration of chief executive officers of other food related Singapore listed companies as well as compensation survey (on regional chief executives based in Singapore) prepared by external professional consultants.

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.

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

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.

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 chairman of the Committees. 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.

Further details on the Scheme 2000 and the options granted to the Directors are stated on page 40 of the Directors' Report.

## 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 2003:-

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

| | Salary | Bonus | Other Benefits* | Total |
|---|---|---|---|---|
| **$750,000 and above** | | | | |
| Tan Kong King | 72% | 27% | 1% | 100% |
| **$250,000 - $499,999** | | | | |
| Tarn Teh Chuen | 79% | 21% | – | 100% |
| Derek Cheong Kheng Beng | 72% | 25% | 3% | 100% |
| Siew Teck Woh# | 73% | 24% | 3% | 100% |

** excluding share options which are disclosed in the Directors' Report*
*# ceased being a Director of the Company as of 6 October 2003*

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

2. Table shows non-executive Directors' Fees:

| | |
|---|---|
| **$40,000 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 |

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 | 3 |
| Below $250,000 | 2 |
| **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
- 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 is no significant breakdown or weaknesses in the system of control of the Group that may result in material losses incurred by the Group for the financial year ended 31 December 2003.

## 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 Masnet; and
- the Company's website at http://www.qaf.com.sg at which our shareholders can access information on the Group.

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 has been issued to all Directors of the Company and the relevant executives of the Group. In addition, a circular will be issued 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 62, 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 nine 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 Group 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 55, 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 QAF Meats and its related companies ("the QAF Meats Group") in Australia. 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 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 52, 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 51, 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 54, 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 28 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).

**Sue Thong**, aged 45, was made the general manager of Ben Trading in 1996 and Ben Fortune Pastry Manufacturing in 2000. Ben Trading is the trading and distribution arm of the QAF Group in Malaysia and Ben Fortune is engaged in the manufacturing of Asian pastry products mainly for the European and Australian markets. Ms Thong has been with the companies as marketing manager since 1990. Prior to joining Ben Trading, Ms Thong had worked with several multinational trading companies. She holds a diploma in Marketing.

**Rule 1207(4)(c) : Information relating to the background of key management staff (cont'd)**

**Derrick Lum Weng Piu**, aged 42, 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 18 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 Association for Investment Management and Research. He also holds a Master of Business Administration from the United Kingdom.

## RULE 1207(4)(D) : INFORMATION RELATING TO RISK MANAGEMENT POLICIES AND PROCESSES

### 1. Disease Outbreak and Farm Contamination

The Primary Production Division of the QAF Group consists of the QAF Meats Group ('QAF Meats'), an integrated producer of pork, which operates eight piggeries and 60 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.

All livestock, including pigs, face potential health epidemic outbreaks. Infectious diseases can be spread by either animal contact or farm contamination. Pig 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 QAF Meats' pigs 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 60 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 pigs, to the slaughtering and boning process, to the marketing and delivery of fresh pork, 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 they market their meat products including the Agri-Food & Veterinary Authority ('AVA') 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.

2. Regulatory Sanctions (cont'd)

**(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 is undertaking irrigation development plans to apply treated abattoir and piggery effluent to agricultural land over the next few years. The EPAs could impose further mandatory requirements which could affect QAF Meats' business in future.

QAF Meats has, over the years, dealt with these risk effectively. Significant resources, sometimes with the assistance of government grants, have and are being devoted to maintain and improve upon the health of its pigs. Resources have also been channeled towards developing the latest technologies and the most efficient infrastructure which ensures the most hygienic conditions for its production and abattoir facilities. Constant communications are maintained with all the health and regulatory authorities concerned as well as the EPAs so as to avoid problems associated with animal health and the environment.

## 3. Cyclical, Seasonal and Varying Consumer Demand

The pork meat industry is firstly subject to the cyclical seasonal demand for pork meat. Consumer demand for pork 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.

Secondly, the industry is also subject to varying consumer demand. This could be attributable to food safety considerations, such as the drop in pork sales in the aftermath of particular pig epidemic outbreaks. These fluctuations in pork 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 pork 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.

## 5. Employee Turnover/Union Risks

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

5. **Employee Turnover/Union Risks (cont'd)**

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 or the disputes are resolved satisfactorily. Furthermore, risk factors which could result in employee turnover or industrial action for QAF Meats in Australia would include occupational health and safety issues, equal opportunity issues, compensation and industrial relations issues.

The track record for both the bakery operations and QAF Meats has been good as far as relations with staff are concerned. The Group endeavours to maintain a high standard of welfare for its staff. QAF Meats, in particular, has always maintained a good record of harmonious industrial relations with its staff and the labour unions.

## 6. Fluctuations in Raw Material Prices

The prices of raw material costs affect the pig farming and pork meat industries. The 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 these prices will in turn affect the costs of production of animal feed and ultimately production cost per pig. 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.

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 QAF 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 QAF 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 does 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.

8. **Financial Risks (cont'd)**

**(c) Foreign currency risk**

Other than the trading and wholesaling segment where products are imported based on the currencies of the countries of origin and sales are made in the local currency, there are no major exposures to foreign currency risk.

**(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 these 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. As such, the Group's exposure to interest rate risk is capped at the prevailing market.

## RULE 907 : INTERESTED PERSON TRANSACTIONS FOR FINANCIAL YEAR 2003

| Name of Interested Person | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and 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 (excluding transactions less than S$100,000) |
|---|---|---|
| P.T. Indofood Sukses Makmur | Nil | $269,388 |
| Fujian Yinfu Oil & Fats Co Ltd | Nil | $23,093,232 |
| KMP Properties Pte Ltd | $1,200,000 | $102,400 |
| P.T. Indortirta Suaka | Nil | $1,681,894 |

The Shareholders' Mandate was granted by members of the Company pursuant to Chapter 9 of the new Listing Manual (issued with effect from 1 July 2002) at the extraordinary general meeting held on 29 May 2003.

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.

The Shareholders' Mandate will be allowed to lapse upon the Annual General Meeting of the Company to be held on 30 April 2004 without renewal.

## 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 71.7% of the stock units of the Company (see page 94 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 to auditors of the company, Ernst & Young, in FY2003 amounted to $142,000. 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.

# REPORT OF 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 2003.

## 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 Companies Act, Cap. 50, an interest in the stock units or convertible securities of the Company :-

| | Direct interest | | Deemed interest | |
|---|---|---|---|---|
| **Name of director** | **At beginning of the year/ at date of appointment** | **At end of the year** | **At beginning of the year/ at date of appointment** | **At end of the year** |
| **Number of stock units of $0.40 each** | | | | |
| Didi Dawis | 36,117,000 | 3,437,000 | 42,383,712 | 42,383,712 |
| Phua Bah Lee | – | – | 25,000 | 25,000 |
| Tan Kong King | 400,000 | 400,000 | – | – |
| Andree Halim | 187,194,152 | 187,194,152 | – | – |
| **Number of Executives' 1990 Share Options to subscribe for shares in the Company** | | | | |
| Tan Kong King | 300,000 | 300,000 | – | – |
| Tarn Teh Chuen | 230,000 | 230,000 | – | – |
| **Number of Executives' 2000 Share Options to subscribe for shares in the Company** | | | | |
| Tan Kong King | 1,100,000 | 1,100,000 | – | – |
| Tarn Teh Chuen | 710,000 | 710,000 | – | – |

There was no change in any of the abovementioned interests of the directors between the end of the financial year and 21 January 2004.

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.

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 Companies Act, Cap. 50 except those disclosed in Note 6 to the financial statements.

**Directors of the Company (cont'd)**

Except for the share options 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 Executives' 1990 Share Option Scheme (the "1990 Scheme")**

The 1990 Scheme was approved by the members of the Company at an Extraordinary General Meeting held on 2 February 1990. Particulars of the options granted in the previous years under the 1990 Scheme have been set out in the report of the directors for the respective years. The 1990 Scheme had expired on 31 December 1999, however the options granted thereunder remain valid and exercisable for a period of five years from the respective dates of grant.

**(b) Share options under the QAF Executives' 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 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.

(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 | – | 1,100,000 | Nil | 1,100,000 |
| Dr Siew Teck Woh | – | 710,000 | Nil | 710,000 |
| Tarn Teh Chuen | – | 710,000 | Nil | 710,000 |

No options were granted during the financial year 2003.

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.

Directors of the Company (cont'd)

**(c) Unissued ordinary shares under options as at 31 December 2003 comprise :**

| | For ordinary shares of $0.40 each in the Company | Exercise price per share | Exercise period |
|---|---|---|---|
| Executives' 1990 Share Option | 778,000 | $0.780 | 3 May 2000 to 2 May 2004 |
| Executives' 1990 Share Option | 760,000 | $0.892 | 4 September 2000 to 3 September 2004 |
| Executives' Share Option Scheme 2000 | 2,025,000 | $0.630 | 26 May 2001 to 25 May 2010 |
| Executives' Share Option Scheme 2000 | 1,553,000 | $0.430 | 19 April 2002 to 18 April 2011 |
| Executives' Share Option Scheme 2000 | 2,667,000 | $0.555 | 6 April 2003 to 5 April 2012 |

The holders of the Executives' 1990 and 2000 Share Options 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 2004*

# STATEMENT BY DIRECTORS
pursuant to Section 201(15)

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 2003 and of the results of the business, changes in equity and cash flows of the Group for the year ended 31 December 2003, 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 2004*

# AUDITORS' REPORT
## to the Members of QAF Limited

We have audited the accompanying financial statements of QAF Limited (the "Company") and its subsidiary companies (the "Group") set out on pages 44 to 90 for the year ended 31 December 2003. 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 Companies Act (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 2003 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 (excluding registers) 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.

We have considered the financial statements and auditors' reports of all subsidiary companies of which we have not acted as auditors, being financial statements included in the consolidated financial statements. The names of these subsidiary companies are stated in Note 39 to the financial statements.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations as required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and in respect of subsidiary companies incorporated in Singapore did not include any comment made under Section 207(3) of the Act.

**ERNST & YOUNG**
Certified Public Accountants

Singapore
*8 March 2004*

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2003

(In Singapore dollars except earnings per share data)

| | Note | 2003 $'000 | 2002 $'000 |
|---|---|---|---|
| **Revenue** | 3 | 809,388 | 828,562 |
| **Cost and expenses** | | | |
| Cost of materials | | 568,864 | 550,351 |
| Staff costs | 4 | 139,832 | 129,671 |
| Amortisation and depreciation | 5 | 29,338 | 30,410 |
| Operating lease rentals | | 18,339 | 19,981 |
| Other operating expenses | | 65,041 | 67,843 |
| **Total cost and expenses** | | 821,414 | 798,256 |
| **(Loss)/profit from operating activities** | 6 | (12,026) | 30,306 |
| Finance costs | 7 | (10,431) | (7,269) |
| Exceptional items | 8 | 31,473 | 2,547 |
| Share of loss of associated and joint venture companies | | (496) | (2) |
| **Profit before taxation and minority interests** | | 8,520 | 25,582 |
| Taxation | 9 | 27,942 | (4,042) |
| Minority interests | | (3,871) | (3,181) |
| **Net profit for the financial year** | | 32,591 | 18,359 |
| Earnings per ordinary share of $0.40 each : | | | |
| – Basic | 10 | 9.6 cents | 5.5 cents |
| – Diluted | | 9.6 cents | 5.5 cents |



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

# BALANCE SHEETS

as at 31 December 2003

(In Singapore dollars)

| | Note | Group 2003 $'000 | Group 2002 $'000 | Company 2003 $'000 | Company 2002 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 11 | 276,481 | 285,603 | 2,593 | 344 |
| Subsidiary companies | 12 | – | – | 229,483 | 171,350 |
| Associated companies | 13 | 2,483 | 3,524 | – | – |
| Joint venture company | 14 | 3,633 | 3,049 | – | – |
| Investments | 15 | 22,155 | 8,565 | 998 | 998 |
| Intangibles | 16 | 1,644 | 983 | 846 | 983 |
| Deferred tax asset | 26 | 1,884 | – | – | – |
| | | 308,280 | 301,724 | 233,920 | 173,675 |
| **Current assets** | | | | | |
| Livestock | 17 | 64,975 | 50,729 | – | – |
| Inventories | 18 | 54,260 | 97,087 | – | – |
| Trade receivables | 19 | 53,298 | 58,640 | – | – |
| Other receivables | 20 | 12,086 | 11,378 | 78,074 | 62,975 |
| Tax recoverable | | 1,924 | 3,790 | – | – |
| Short-term investments | 21 | 2,716 | 1,601 | – | – |
| Cash and deposits | 22 | 83,582 | 38,373 | 15,272 | 7,097 |
| | | 272,841 | 261,598 | 93,346 | 70,072 |
| **Current liabilities** | | | | | |
| Trade payables | | 54,030 | 72,170 | 48 | 9 |
| Other payables | 23 | 26,604 | 32,674 | 2,012 | 1,038 |
| Short-term borrowings | 24 | 89,391 | 80,968 | 67,302 | 54,863 |
| Long-term loans - current portion | 25 | 48,849 | 23,836 | – | – |
| Tax payable | | 4,803 | 4,607 | 966 | 2,212 |
| | | 223,677 | 214,255 | 70,328 | 58,122 |
| **Net current assets** | | 49,164 | 47,343 | 23,018 | 11,950 |
| **Non-current liabilities** | | | | | |
| Other payables | 23 | 7,362 | 5,963 | 33,930 | 12,932 |
| Long-term loans | 25 | 59,514 | 66,302 | – | – |
| Deferred taxation | 26 | 10,256 | 40,366 | 450 | 206 |
| | | (77,132) | (112,631) | (34,380) | (13,138) |
| | | 280,312 | 236,436 | 222,558 | 172,487 |
| **Capital and reserves** | | | | | |
| Share capital | 27 | 140,512 | 134,700 | 140,512 | 134,700 |
| Reserves | 28 | 123,455 | 77,656 | 82,046 | 37,787 |
| | | 263,967 | 212,356 | 222,558 | 172,487 |
| Minority interests | | 16,345 | 24,080 | – | – |
| | | 280,312 | 236,436 | 222,558 | 172,487 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2003

(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 2001 | 131,204 | 1,646 | 2,555 | 4,329 | 65,224 | (6,553) | 198,405 |
| Transfer from revaluation reserve to revenue reserve | – | – | (49) | – | 49 | – | – |
| Transfer to capital reserve due to bonus shares issued by a subsidiary company | – | – | – | 7,834 | (7,834) | – | – |
| Exchange differences arising on consolidation | – | – | – | – | – | (3,492) | (3,492) |
| Net loss not recognised in the profit and loss account | – | – | (49) | 7,834 | (7,785) | (3,492) | (3,492) |
| Issuance of ordinary shares by exercise of Warrants 2003 | 2,880 | 1,078 | – | (358) | – | – | 3,600 |
| Issuance of ordinary shares by exercise of Executives' Share Option | 616 | 97 | – | – | – | – | 713 |
| Dividends | – | – | – | – | (5,229) | – | (5,229) |
| Net profit for the financial year | – | – | – | – | 18,359 | – | 18,359 |
| 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 Executives' Share Option | 12 | 5 | – | – | – | – | 17 |
| Dividends (Note 29) | – | – | – | – | (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 |

# CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2003

(In Singapore dollars)

| | 2003<br>$'000 | 2002<br>$'000 |
|---|---|---|
| **Cash flows from operating activities :** | | |
| Profit before taxation and minority interests | 8,520 | 25,582 |
| Adjustments for : | | |
| Depreciation of property, plant and equipment | 29,176 | 30,273 |
| Loss/(gain) from sale of property, plant and equipment | 25 | (288) |
| Property, plant and equipment written off | 574 | 58 |
| Share of loss of associated and joint venture companies | 496 | 2 |
| Amortisation of intangible asset | 162 | 137 |
| Interest expense | 10,431 | 7,269 |
| Dividend and interest income | (939) | (1,135) |
| Loss/(gain) on sale of long-term investments | 58 | (88) |
| Impairment loss on property, plant and equipment | 1,500 | – |
| Net gain on disposal of subsidiary companies | (36,673) | – |
| Impairment loss on long-term investments | 3,700 | – |
| **Operating profit before working capital changes** | 17,030 | 61,810 |
| (Increase)/decrease in receivables | (408) | 4,827 |
| Decrease/(increase) in inventories and livestock | 7,314 | (24,919) |
| Increase/(decrease) in payables | 19,692 | (8,935) |
| (Increase)/decrease in short term investments | (1,115) | 248 |
| Exchange differences | (3,945) | 749 |
| **Cash generated from operations** | 38,568 | 33,780 |
| Interest paid | (9,804) | (6,979) |
| Interest received | 899 | 1,117 |
| Income tax paid | (4,739) | (8,087) |
| **Net cash provided by operating activities** | 24,924 | 19,831 |
| **Cash flows from investing activities :** | | |
| Purchase of property, plant and equipment | (30,284) | (29,916) |
| Proceeds on sale of property, plant and equipment | 549 | 528 |
| Purchase of investments | (11,300) | – |
| Purchase of shares in an associated company | (7) | – |
| Dividend received from quoted investment | 40 | 18 |
| Increase/(decrease) in advances to associated companies | (154) | 271 |
| Proceeds from sale of long term investments | 1,291 | 301 |
| Investment in a joint venture company | – | (3,049) |
| Purchase of shares from minority shareholder of a subsidiary company | – | (1,292) |
| Net cash flow on disposal of subsidiary companies, net of cash disposed (Note A) | 37,915 | – |
| Purchase of trademarks | (741) | – |
| **Net cash used in investing activities** | (2,691) | (33,139) |

## CONSOLIDATED STATEMENT OF CASH FLOWS

(In Singapore dollars)

| | 2003<br>$'000 | 2002<br>$'000 |
|---|---|---|
| **Cash flows from financing activities :** | | |
| Dividends paid during the year | (5,253) | (5,229) |
| Dividends paid to external shareholders of subsidiary companies | (559) | (2,086) |
| Net proceeds from short term borrowings | 12,424 | 31,805 |
| Proceeds from/(repayment of) bank borrowings | 9,098 | (21,650) |
| Proceeds from issuance of share capital | 7,266 | 4,313 |
| **Net cash provided by financing activities** | 22,976 | 7,153 |
| Net increase/(decrease) in cash and cash equivalents | 45,209 | (6,155) |
| Cash and cash equivalents at beginning of year (Note 30) | 38,373 | 44,528 |
| Cash and cash equivalents at end of year (Note 30) | 83,582 | 38,373 |

| | 2003<br>$'000 |
|---|---|
| **Note A – Analysis of disposal of subsidiary companies** | |
| Property, plant and equipment | 39,198 |
| Associated companies | 1,248 |
| Investments | (77) |
| Inventories | 21,265 |
| Receivables | 5,042 |
| Cash and cash equivalents | 9,885 |
| Payables | (41,416) |
| Short-term loans | (4,000) |
| Provision for taxation | (584) |
| Deferred taxation | (1,298) |
| | 29,263 |
| Advances recoverable | (7,339) |
| Minority interests | (10,797) |
| Gain on disposal | 36,673 |
| Consideration | 47,800 |
| Cash and cash equivalents disposed | (9,885) |
| Net cash flow on disposal, net of cash and cash equivalents disposed | 37,915 |





*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, beverages, food related ingredients and commodities; production, processing and marketing of pork, feedmilling and trading in animal feeds and related ingredients; and investment holding. During the financial year under review, the Group discontinued its supermarket operations with the disposal of a subsidiary company, Shop N Save Pte Ltd.

## 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 Companies Act. In previous years, the financial statements were prepared in accordance with Singapore Statements of Accounting Standard ("SAS"). The transition from SAS to FRS did not result in any significant change in accounting policies.

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. 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.

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.

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

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.

**(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.

**(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) 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.

***(iii) 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.

**(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 2003 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.

**(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.

**(t) Employee benefits**

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

The Company has in place the QAF Executives' Share Option Scheme 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) 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 | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| Sale of goods | 797,985 | 816,563 |
| Rental income from storage and warehousing facilities | 6,756 | 6,626 |
| Interest income from: | | |
| - Fixed deposits with financial institutions | 625 | 782 |
| - Advances to associated companies | 274 | 333 |
| - Others | – | 2 |
| Gross dividends from quoted equity investments | 40 | 18 |
| Miscellaneous | 3,708 | 4,238 |
| | 809,388 | 828,562 |

## 4. Staff costs

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| (a) Staff costs (including Executive Directors) : | | |
| - salaries, wages and other related costs | 128,545 | 119,259 |
| - CPF and contributions to other plans | 6,925 | 7,052 |
| - superannuation contributions | 4,362 | 3,360 |
| | 139,832 | 129,671 |

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| (b) Number of employees as at 31 December | 4,032 | 5,271 |

## 5. Amortisation and depreciation

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| Amortisation of intangibles (Note 16) | 162 | 137 |
| Depreciation of property, plant and equipment (Note 11) | 29,176 | 30,273 |
| | 29,338 | 30,410 |

## 6. (Loss)/profit from operating activities

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| (Loss)/profit from operating activities is stated after charging/(crediting) : | | |
| Auditors' remuneration : | | |
| - Auditors of the Company | 278 | 311 |
| - Other auditors | 262 | 306 |
| Professional fees for non-audit services rendered : | | |
| - by the auditors of the Company | 142 | 1 |
| - by other auditors | 146 | 3 |
| Fees and remuneration for the directors of the Company : | | |
| - fees | 119 | 98 |
| - remuneration | 1,661 | 1,624 |
| - contribution to the Central Provident Fund | 83 | 87 |
| (Writeback of)/provision for diminution in value of short-term investments | (159) | 445 |
| Gain on sale of investments | (468) | (88) |
| Research and development cost | 10,366 | 6,844 |
| Decrease in the fair value less estimated point-of-sale costs of livestock | 2,665 | 5,156 |
| Fees paid to a firm in which a director of the Company is a partner | 1 | 2 |
| Foreign exchange gain | (5,044) | (1,743) |

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**

| | 2003 | 2002 |
|---|---|---|
| $500,000 and above | 1 | 1 |
| * $250,000 to $499,999 | 3 | 2 |
| Below $250,000 | 5 | 5 |
| Total | 9 | 8 |

* *(inclusive of the remuneration of a director who resigned during the financial year under review).*

| | 2003 | 2002 |
|---|---|---|
| * Executive directors | 4 | 4 |
| Non-executive directors | 5 | 4 |
| Total | 9 | 8 |

* *(including a director who resigned during the financial year under review).*

## 7. Finance costs

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| Interest expense on fixed term bank loans | 10,431 | 7,269 |

## 8. Exceptional items

| | Group 2003 $'000 | Group 2002 $'000 |
|---|---|---|
| Net gain on disposal of subsidiary companies | 36,673 | – |
| (Impairment loss)/writeback of cost of long-term investments | (3,700) | 2,547 |
| Impairment loss on property, plant and equipment | (1,500) | – |
| | 31,473 | 2,547 |

## 9. Taxation

| | Group 2003 $'000 | Group 2002 $'000 |
|---|---|---|
| Income tax (credit)/expense on the profit for the year: | | |
| - current tax | 7,762 | 5,091 |
| - deferred tax | (35,134) | (224) |
| | (27,372) | 4,867 |
| Over provision in respect of prior year : | | |
| - current tax | (377) | (224) |
| - deferred tax | (53) | (601) |
| | (27,802) | 4,042 |
| Share of taxation of associated and joint venture companies | (140) | – |
| | (27,942) | 4,042 |

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 22% (2002 : 22%) to the profit before taxation due to the following factors :

| | | |
|---|---|---|
| Profit before taxation | 8,520 | 25,582 |
| Tax expense at statutory tax rate of 22% (2002 : 22%) | 1,874 | 5,628 |
| Adjustments : | | |
| Income not subject to tax | (7,909) | (1,326) |
| Expenses not deductible for tax purposes | 1,267 | 1,815 |
| Tax reliefs, rebates and incentives | (1,845) | (934) |
| Utilisation of tax benefits not recognised in previous years | (150) | (934) |
| Tax benefits not recognised in current year | 50 | 490 |
| Higher effective tax rates in other countries | (2,873) | 402 |
| Overprovision in respect of prior years | (430) | (120) |
| Tax effect from the adoption of tax consolidation scheme by subsidiary companies in Australia | (17,809) | – |
| Others | (117) | (274) |
| Effect of change in statutory tax rate | – | (705) |
| Tax (credit)/expense | (27,942) | 4,042 |

At 31 December 2003, the Group has unutilised tax losses and capital allowances of approximately $1,877,000 (2002 : $3,501,000) and $1,211,000 (2002 : $2,169,000) respectively which can, subject to the provisions of relevant local tax legislations 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 :

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| Group earnings used for the calculation of EPS : | | |
| Profit for the financial year attributable to shareholders | 32,591 | 18,359 |

| | 2003 '000 | 2002 '000 |
|---|---|---|
| Number of shares used for the calculation of : | | |
| **(i) Basic EPS** | | |
| Weighted average number of ordinary shares in issue | 338,834 | 333,067 |
| **(ii) Diluted EPS** | | |
| Weighted average number of ordinary shares in issue | 338,834 | 333,067 |
| Share options | 233 | 724 |
| Warrants 2003 | – | 2,835 |
| Adjusted weighted average number of ordinary shares | 339,067 | 336,626 |

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. Property, plant and equipment

| | Freehold land $'000 | Freehold buildings $'000 | Leasehold land and buildings $'000 | Leasehold improve-ments $'000 | Plant and machinery $'000 | Furniture, fittings and office equipment $'000 | Motor vehicles $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | |
| Cost/valuation : | | | | | | | | | |
| At 1.1.2003 | 12,423 | 85,270 | 117,267 | 25,145 | 218,232 | 37,860 | 27,344 | 2,769 | 526,310 |
| Currency realignment | 2,453 | 25,453 | 3,020 | (205) | 27,443 | 2,135 | 887 | 416 | 61,602 |
| Additions | – | 50 | 2,458 | 1,523 | 5,413 | 3,386 | 3,271 | 14,183 | 30,284 |
| Disposals/write-off | – | – | (1) | (1,245) | (2,568) | (2,254) | (1,827) | (107) | (8,002) |
| Disposal of subsidiary companies | – | – | (25,686) | (11,408) | (18,194) | (18,901) | (1,163) | (14) | (75,366) |
| Transfers | 97 | 124 | (105) | 222 | 4,059 | 663 | 17 | (5,077) | – |
| At 31.12.2003 | 14,973 | 110,897 | 96,953 | 14,032 | 234,385 | 22,889 | 28,529 | 12,170 | 534,828 |
| Accumulated depreciation and impairment loss : | | | | | | | | | |
| At 1.1.2003 : | | | | | | | | | |
| - accumulated depreciation | – | 24,226 | 25,309 | 12,395 | 134,103 | 24,957 | 18,717 | – | 239,707 |
| - accumulated impairment loss | – | – | 500 | – | 500 | – | – | – | 1,000 |
| | – | 24,226 | 25,809 | 12,395 | 134,603 | 24,957 | 18,717 | – | 240,707 |
| Currency realignment | – | 7,588 | 601 | (32) | 19,701 | 1,481 | 647 | – | 29,986 |
| Charge for the year | – | 3,158 | 3,570 | 1,348 | 14,481 | 3,572 | 3,047 | – | 29,176 |
| Disposals/write-off | – | – | (1) | (1,038) | (1,613) | (1,898) | (1,804) | – | (6,354) |
| Disposal of subsidiary companies | – | – | (2,911) | (7,267) | (12,578) | (12,483) | (929) | – | (36,168) |
| Transfers | – | – | (21) | 21 | – | – | – | – | – |
| Impairment loss reversed | – | – | – | – | (500) | – | – | – | (500) |
| Impairment loss for the year | – | – | 1,500 | – | – | – | – | – | 1,500 |
| At 31.12.2003 | – | 34,972 | 28,547 | 5,427 | 154,094 | 15,629 | 19,678 | – | 258,347 |
| Charge for 2002 | – | 2,488 | 3,181 | 1,603 | 15,791 | 4,356 | 2,854 | – | 30,273 |
| Net book value : | | | | | | | | | |
| At 31.12.2003 | 14,973 | 75,925 | 68,406 | 8,605 | 80,291 | 7,260 | 8,851 | 12,170 | 276,481 |
| At 31.12.2002 | 12,423 | 61,044 | 91,458 | 12,750 | 83,629 | 12,903 | 8,627 | 2,769 | 285,603 |

**11. Property, plant and equipment (cont'd)**

**Analysis of cost and valuation**

| | Cost $'000 | Assets at valuation $'000 | Total $'000 |
|---|---|---|---|
| Freehold land | 14,973 | – | 14,973 |
| Freehold buildings | 110,897 | – | 110,897 |
| Leasehold land and buildings | 81,637 | 15,316 | 96,953 |
| Leasehold improvements | 14,032 | – | 14,032 |
| Plant and machinery | 234,385 | – | 234,385 |
| Furniture, fittings and office equipment | 22,889 | – | 22,889 |
| Motor vehicles | 28,529 | – | 28,529 |
| Construction-in-progress | 12,170 | – | 12,170 |
| | 519,512 | 15,316 | 534,828 |

| | Leasehold improvements $'000 | Furniture, fittings and office equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|
| **Company** | | | | |
| Cost : | | | | |
| At 1.1.2003 | 180 | 766 | 280 | 1,226 |
| Additions | 2,400 | 18 | – | 2,418 |
| At 31.12.2003 | 2,580 | 784 | 280 | 3,644 |
| Accumulated depreciation : | | | | |
| At 1.1.2003 | 108 | 601 | 173 | 882 |
| Charge for the year | 84 | 49 | 36 | 169 |
| At 31.12.2003 | 192 | 650 | 209 | 1,051 |
| Charge for 2002 | 36 | 53 | 36 | 125 |
| Net book value | | | | |
| At 31.12.2003 | 2,388 | 134 | 71 | 2,593 |
| At 31.12.2002 | 72 | 165 | 107 | 344 |

(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 $67,977,000 (2002 : $89,581,000).

(c) Included in the Group's property, plant and equipment are property, plant and equipment of certain subsidiary companies in 2002 at a net book value of $115,633,000 which was charged by way of mortgage to banks for term loan facilities granted. All charges on the said assets had been cancelled and released in 2003.

(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 $7,927,000 (2002 : $10,829,000) which are not in commercial use as at 31 December 2003.

## 12.Subsidiary companies

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| Unquoted equity shares, at cost | 112,261 | 122,155 |
| Impairment loss | (10,475) | (12,975) |
| | 101,786 | 109,180 |
| Advances to subsidiary companies | 143,128 | 101,479 |
| Less : Provision for doubtful debts | (15,431) | (39,309) |
| | 127,697 | 62,170 |
| | 229,483 | 171,350 |
| Movement in impairment loss is as follows : | | |
| Balance at beginning of year | 12,975 | 12,975 |
| Write-back during the year | (2,500) | – |
| Balance at end of year | 10,475 | 12,975 |
| Movements in the provision for doubtful debts are as follows : | | |
| Balance at beginning of year | 39,309 | 39,309 |
| Writeback during the year | (19,486) | – |
| Bad debts written off against provision | (4,392) | – |
| Balance at end of year | 15,431 | 39,309 |

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 $26,523,277 (2002 : $25,742,881) 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 0.30% to 0.55% (2002 : 1.77% to 6.30%) per annum is receivable on advances to subsidiary companies amounting to $75,591,746 (2002 : $17,273,706).

Details of subsidiary companies are set out in Note 39.

## 13.Associated companies

| | Group 2003 $'000 | Group 2002 $'000 |
|---|---|---|
| Unquoted equity shares, at cost | 653 | 722 |
| Group's share of post-acquisition accumulated losses | (42) | (152) |
| Currency realignment | (284) | (267) |
| | 327 | 303 |
| Advances to associated companies | 2,156 | 3,221 |
| | 2,483 | 3,524 |

The Group's investments 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% (2002 : 6.0% to 11.5%) per annum is receivable on advances amounting to $1,871,100 (2002 : $3,221,000) due from associated companies.

Details of associated companies are set out in Note 39.

## 14.Joint venture company

| | Group 2003 $'000 | Group 2002 $'000 |
|---|---|---|
| Unquoted equity shares, at cost | 2,997 | 2,997 |
| Establishment costs | 52 | 52 |
| Group's share of post-acquisition accumulated losses | (325) | – |
| Currency realignment | 909 | – |
| | 3,633 | 3,049 |

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.

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

| | 2003 | 2002 |
|---|---|---|
| Balance sheet : | | |
| Property, plant and equipment | 7,295 | 3,149 |
| Other assets | 1,140 | 224 |
| Liabilities | (4,854) | (376) |
| | 3,581 | 2,997 |
| Profit and loss account : | | |
| Revenue | 6,731 | – |
| Expenditure | (7,196) | – |
| Loss before taxation | (465) | – |
| Taxation | 140 | – |
| Loss after taxation | (325) | – |

## 15.Investments

| | Group 2003 $'000 | Group 2002 $'000 | Company 2003 $'000 | Company 2002 $'000 |
|---|---|---|---|---|
| Quoted equity shares in corporations | | | | |
| At cost | 11,300 | 2,564 | – | – |
| Less : Impairment loss | – | (1,215) | – | – |
| | 11,300 | 1,349 | – | – |
| Quoted bond, at cost | 998 | 998 | 998 | 998 |
| Unquoted equity shares in corporations, at cost | 13,557 | 6,218 | – | – |
| Less : Impairment loss | (3,700) | – | – | – |
| | 9,857 | 6,218 | – | – |
| | 22,155 | 8,565 | 998 | 998 |
| (i) Market value as at end of year : | | | | |
| - Quoted equity shares in corporations | 11,783 | 1,128 | – | – |
| - Quoted bond | 1,030 | 1,060 | 1,030 | 1,060 |
| (ii) Market value as at latest practicable date: | | | | |
| - Quoted equity shares in corporations | 10,484 | 1,171 | – | – |
| - Quoted bond | 1,040 | 1,070 | 1,040 | 1,070 |

Movements in impairment loss are as follows :

| | Group 2003 $'000 | Group 2002 $'000 | Company 2003 $'000 | Company 2002 $'000 |
|---|---|---|---|---|
| (i) Quoted equity shares in corporations : | | | | |
| Balance at beginning of year | 1,215 | 1,500 | – | – |
| Reversal made during the year | (1,215) | (285) | – | – |
| Balance at end of year | – | 1,215 | – | – |
| (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 2003 are advances provided by the Group to Gardenia Foods (Thailand) Ltd ("GFT") prior to the disposal of GFT during the financial year. The Sale and Purchase Agreement ("SPA") allows the purchaser to repay the advances to the Group in the event of GFT's initial public offer and listing of its shares on the Stock Exchange of Thailand within 10 years from the date of the SPA. The advances are to be repaid in the form of shares in GFT upon its initial public offer and the maximum number of shares shall not exceed 18% of the total issued and paid up shares of GFT. The advances are unsecured, non-interest bearing and are not expected to be repaid within the next twelve months.

## 16.Intangibles

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| Trademarks, at cost | 3,491 | 2,750 | 2,750 | 2,750 |
| Less : Accumulated amortisation | (1,932) | (1,767) | (1,904) | (1,767) |
| Currency realignment | 85 | – | – | – |
| | 1,644 | 983 | 846 | 983 |

Movements in accumulated amortisation are as follows :

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Balance at beginning of year | 1,767 | 1,630 | 1,767 | 1,630 |
| Amortisation for the financial year | 162 | 137 | 137 | 137 |
| Currency realignment | 3 | – | – | – |
| Balance at end of year | 1,932 | 1,767 | 1,904 | 1,767 |

## 17.Livestock

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| Livestock : | | |
| - at fair value | 35,475 | 29,137 |
| - at cost | 29,500 | 21,592 |
| | 64,975 | 50,729 |

| | 2003 | 2002 |
|---|---|---|
| Physical quantity of pigs : | | |
| - Number of progeny | 429,545 | 482,915 |
| - Number of breeders | 68,186 | 65,882 |
| | 497,731 | 548,797 |

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.

**17. Livestock (cont'd)**

Reconciliation of changes in the carrying amount :

| | Group | |
|---|---|---|
| | **2003** | **2002** |
| | **$'000** | **$'000** |
| Balance at 1 January | 50,729 | 47,770 |
| Currency realignment | 15,054 | 1,934 |
| Increase due to purchases | 215,069 | 124,115 |
| (Loss)/gains arising from changes in fair value less estimated point-of-sale costs attributable to physical changes | (3,574) | 1,192 |
| Gain/(loss) arising from changes in fair value less estimated point-of-sale costs attributable to price changes | 909 | (6,348) |
| Decrease due to sales | (213,212) | (117,934) |
| Balance at 31 December | 64,975 | 50,729 |

## 18.Inventories

| | Group | |
|---|---|---|
| | **2003** | **2002** |
| | **$'000** | **$'000** |
| At cost : | | |
| Raw materials | 30,729 | 55,155 |
| Finished goods | 13,708 | 32,202 |
| Spare parts and consumables | 1,131 | 1,106 |
| Work-in-progress | 24 | 23 |
| | 45,592 | 88,486 |
| At net realisable value : | | |
| Raw materials | 2,122 | 1,771 |
| Finished goods | 1,895 | 2,859 |
| Spare parts and consumables | 4,651 | 3,971 |
| | 8,668 | 8,601 |
| Total inventories at lower of cost and net realisable value | 54,260 | 97,087 |

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

| | | |
|---|---|---|
| First-in-first-out | 10,021 | 28,635 |
| Weighted average | 44,239 | 68,452 |
| | 54,260 | 97,087 |
| Inventories are stated after deducting provision for obsolescence of | 448 | 716 |

Movements in provision for obsolescence are as follows :

| | | |
|---|---|---|
| Balance at beginning of year | 716 | 909 |
| Currency realignment | 18 | (2) |
| Provision made during the year | 1,392 | 954 |
| Inventories written off against provision | (1,678) | (1,145) |
| Balance at end of year | 448 | 716 |

Raw materials of the Group as at 31 December 2003 amounting to $21,902,000 (2002 : nil) have been charged to a bank in connection with credit facilities granted to a subsidiary company.

## 19.Trade receivables

| | Group 2003 $'000 | Group 2002 $'000 |
|---|---|---|
| Trade debtors | 56,102 | 61,529 |
| Less : Provision for doubtful debts | (2,804) | (2,889) |
| | 53,298 | 58,640 |
| Movements in provision for doubtful debts are as follows : | | |
| Balance at beginning of year | 2,889 | 3,810 |
| Currency realignment | (94) | (188) |
| Disposal of subsidiary companies | (662) | – |
| Provision made/(writeback) during the year | 755 | (452) |
| Bad debts written off against provision | (84) | (281) |
| Balance at end of year | 2,804 | 2,889 |

## 20.Other receivables

| | Group 2003 $'000 | Group 2002 $'000 | Company 2003 $'000 | Company 2002 $'000 |
|---|---|---|---|---|
| Prepayments | 3,234 | 4,401 | 20 | 33 |
| Sundry deposits | 873 | 3,170 | 149 | 16 |
| Staff advances and loans | 201 | 178 | 5 | – |
| Sundry debtors | 7,785 | 3,633 | 3,606 | 188 |
| Less : Provision for doubtful debts | (7) | (4) | – | – |
| | 7,778 | 3,629 | 3,606 | 188 |
| Amounts due from subsidiary companies | | | | |
| - interest bearing | – | – | 73,894 | 54,237 |
| - non-interest bearing | – | – | 2,400 | 10,501 |
| Less: Provision for doubtful debts | – | – | (2,000) | (2,000) |
| | – | – | 74,294 | 62,738 |
| | 12,086 | 11,378 | 78,074 | 62,975 |

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% (2002 : 5% to 6%) per annum and have no fixed terms of repayment.

**20. Other receivables (cont'd)**

Movements in provision for doubtful sundry debts are as follows :

| | Group | |
|---|---|---|
| | **2003** | **2002** |
| | **$'000** | **$'000** |
| Balance at beginning of year | 4 | 104 |
| Provision/(writeback) during the year | 3 | (91) |
| Bad debts written off against provision | – | (9) |
| Balance at end of year | 7 | 4 |

There is no movement during the year in the provision for doubtful debts for amounts due from subsidiary companies.

## 21.Short-term investments

| | Group | |
|---|---|---|
| | **2003** | **2002** |
| | **$'000** | **$'000** |
| Quoted equity shares in corporations, at cost | 2,853 | 2,260 |
| Less : Provision for diminution in value | (137) | (659) |
| | 2,716 | 1,601 |
| Market value as at end of year | 2,716 | 1,601 |

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:

| | | |
|---|---|---|
| Balance at beginning of year | 659 | 253 |
| (Writeback)/provision made during the year | (159) | 445 |
| Provision written back on disposal of investment | (363) | (39) |
| Balance at end of year | 137 | 659 |

## 22.Cash and deposits

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | **2002** | **2003** | **2002** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Fixed deposits with financial institutions | 60,407 | 16,009 | 14,363 | 6,200 |
| Cash and bank balances | 23,175 | 22,364 | 909 | 897 |
| | 83,582 | 38,373 | 15,272 | 7,097 |

Fixed deposits of the Group amounting to $26,000 (2002 : $27,000) have been pledged to the banks to secure certain credit facilities. Fixed deposits are made for varying periods between three to thirty days and the average interest rate on the fixed deposits approximate 1.26% (2002 : 2.70%) per annum.

## 23.Other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| Payable within one year : | | | | |
| Staff related expenses | 11,905 | 12,030 | 760 | 631 |
| Accrued operating expenses | 10,216 | 13,181 | 1,252 | 407 |
| Sundry creditors | 4,483 | 7,463 | – | – |
| | 26,604 | 32,674 | 2,012 | 1,038 |
| Payable after one year : | | | | |
| Provision for long service leave | 7,362 | 5,447 | – | – |
| Amount payable in relation to the acquisition of leasehold land and buildings | – | 516 | – | – |
| Amounts due to subsidiary companies | – | – | 33,930 | 12,932 |
| | 7,362 | 5,963 | 33,930 | 12,932 |

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 :

| | | | | |
|---|---|---|---|---|
| Balance at beginning of year | 5,447 | 4,679 | – | – |
| Currency realignment | 1,655 | 191 | – | – |
| Provision made during the year | 468 | 849 | – | – |
| Amounts utilised | (208) | (272) | – | – |
| Balance at end of year | 7,362 | 5,447 | – | – |

## 24.Short-term borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| Short-term bank loans : | | | | |
| - unsecured | 69,679 | 66,283 | 67,302 | 54,863 |
| - secured | 19,712 | 14,685 | – | – |
| | 89,391 | 80,968 | 67,302 | 54,863 |

The short-term bank loans bear interest at rates ranging from 0.82% to 6.89% (2002 : 1.55% to 6.49%) per annum. The secured portion of the borrowings as at 31 December 2003 is charged on the raw materials purchased by a subsidiary company.

## 25.Long-term loans

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| Loans from banks : | | |
| - Loan A (secured) | – | 24,965 |
| - Loan B (secured) | – | 24,965 |
| - Loan C | – | 3,140 |
| - Loan D | 7,944 | 5,068 |
| - Loan E | 21,000 | 28,000 |
| - Loan F | 3,000 | 4,000 |
| - Loan G | 76,419 | – |
| | 108,363 | 90,138 |
| Less : Current portion | (48,849) | (23,836) |
| Non-current portion of loans | 59,514 | 66,302 |

Loans A and B bear interest ranging from 7.0617% to 7.27% (2002 : 6.60% to 7.45%) per annum and are repayable in equal quarterly instalments over four years commencing January 2002, with a bullet repayment of $11,292,000 in October 2005 for each of the loans. These loans are secured by first fixed and floating charge and first legal mortgage over all present and future assets including all land and buildings of certain subsidiary companies (Note 11). Both loans were fully repaid and all charges over the said assets had been cancelled and released during the year.

Loans C and D bear interest ranging from 3.5% to 3.8% (2002 : 3.75% to 3.90%) per annum and are repayable in equal monthly instalments over two years commencing from April 2002 and July 2002 respectively. Loan C was fully repaid during the year.

Loans E and F bear interest ranging from 1.6875% to 2.33% (2002 : 1.80% 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 G bears interest at 6.1875% (2002 : nil) 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 $94,562,000 (2002 : nil) and compliance with financial covenants.

## 26. Deferred taxation

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at beginning of year | 40,366 | 39,420 | 206 | 206 |
| Currency realignment | 4,491 | 1,771 | – | – |
| Disposal of subsidiary companies | (1,298) | – | – | – |
| (Reversal)/provision during the financial year | (35,187) | (825) | 244 | – |
| Balance at end of year | 8,372 | 40,366 | 450 | 206 |
| The deferred taxation arises as a result of : | | | | |
| Excess of net book value over tax written down value of property, plant and equipment | 7,310 | 22,595 | – | – |
| Excess of net book value over tax value of livestock of an overseas subsidiary company | 17,008 | 12,950 | – | – |
| Excess of net book value over tax value of certain raw material of an overseas subsidiary company | 1,404 | 14,982 | – | – |
| Unutilised tax losses | (12,190) | (7,563) | – | – |
| Sundry provisions | (2,562) | (208) | – | – |
| Employee benefits | (4,187) | (3,359) | – | – |
| Earnings which are retained overseas | 520 | 385 | 450 | 206 |
| Others | 1,069 | 584 | – | – |
| | 8,372 | 40,366 | 450 | 206 |
| Analysis of deferred taxation : | | | | |
| - deferred tax assets | (1,884) | – | – | – |
| - deferred tax liabilities | 10,256 | 40,366 | 450 | 206 |
| | 8,372 | 40,366 | 450 | 206 |

## 27.Share capital

| | Group and Company | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'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 | | |
| 336,750,373 (2002 : 328,009,373) stock units of $0.40 each | 134,700 | 131,204 |
| Issued during the year | | |
| 14,530,000 (2002 : 8,741,000) stock units of $0.40 each | 5,812 | 3,496 |
| Balance at end of year : | | |
| 351,280,373 (2002 : 336,750,373) stock units of $0.40 each | 140,512 | 134,700 |

### 27. Share capital (cont'd)

During the financial year :

(i) the Company issued 30,000 (2002 : 1,541,000) ordinary shares of $0.40 each for cash at the exercise price of $0.555 per share upon the exercise of 30,000 (2002 : 1,541,000) share options by employees pursuant to the Executives' Share Option Scheme 1990 and 2000 ("1990 Scheme" and "2000 Scheme") respectively; and

(ii) the Company issued 14,500,000 (2002 : 7,200,000) ordinary shares of $0.40 each for cash at the exercise price of $0.50 per share upon the exercise of 14,500,000 warrants by the holders of Warrants 2003.

The ordinary shares issued during the financial year rank pari passu in all respects with the existing shares. Any ordinary shares issued are immediately converted into stock units of the Company ranking pari passu in all respects with the existing stock units of the Company. The holders of stock units are entitled to receive dividends as and when declared by the Company. Each stock unit carries one vote without restriction.

Unissued shares under options as at 31 December 2003 comprise 7,783,000 (2002 : 8,207,000) options entitling holders to subscribe at any time during the exercise period for the same number of ordinary shares in the Company at the exercise prices ranging from $0.430 to $0.892 (2002 : $0.430 to $0.892) per share. The details of the share options are discussed more fully in Note 31.

The holders of the Executives' 1990 and 2000 Share Options have no right to participate by virtue of these options in any share issue of any other company in the Group.

## 28. Reserves

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| **Non-distributable reserves** | | | | |
| Share premium | 4,996 | 2,821 | 4,996 | 2,821 |
| Revaluation reserve | 2,457 | 2,506 | – | – |
| Capital reserve | 16,235 | 11,805 | – | 721 |
| | 23,688 | 17,132 | 4,996 | 3,542 |
| **Distributable reserves** | | | | |
| Revenue reserve | 92,805 | 70,569 | 77,050 | 34,245 |
| Foreign currency translation reserve | 6,962 | (10,045) | – | – |
| | 99,767 | 60,524 | 77,050 | 34,245 |
| | 123,455 | 77,656 | 82,046 | 37,787 |

**28. Reserves (cont'd)**

Analysis of movement in the reserves of the Company :

| | Company | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| **Share premium** | | |
| At beginning of year | 2,821 | 1,646 |
| Premium arising on issuance of shares during the year | 1,454 | 817 |
| Transfer from capital reserve upon exercise of Warrants 2003 | 721 | 358 |
| At end of year | 4,996 | 2,821 |
| **Capital reserve** | | |
| At beginning of year | 721 | 1,079 |
| Transfer to share premium account upon exercise of Warrants 2003 | (721) | (358) |
| At end of year | – | 721 |
| **Revenue reserve** | | |
| At beginning of year | 34,245 | 11,959 |
| Net profit for the year | 48,058 | 27,515 |
| Dividends | (5,253) | (5,229) |
| At end of year | 77,050 | 34,245 |

**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 share 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, associate 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 (2002 : 2 cents) per stock unit, net of tax at 20% (2002 : 22%), amounting to $5,620,486 (2002 : $5,253,306) be paid in respect of the financial year ended 31 December 2003. 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 | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| Cash and bank balances | 23,175 | 22,364 |
| Fixed deposits with financial institutions | 60,407 | 16,009 |
| | 83,582 | 38,373 |

## 31.Employee benefits

(i) Share options

The Group has granted share options to eligible employees under its Executives' Share Option Scheme 1990 and 2000 ("1990 Scheme" and "2000 Scheme") respectively.

The 1990 Scheme was approved by the members of the Company at an Extraordinary General Meeting held on 2 February 1990. The 1990 Scheme had expired, however the options granted thereunder remain valid and exercisable for a period of five years from the respective dates of grant.

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)**

Information with respect to the total number of options granted under both the Schemes are as follows :

| | No.of options in financial year 2003 '000 | Weighted average exercise price in financial year 2003 $ | No. of options in financial year 2002 '000 | Weighted average exercise price in financial year 2002 $ |
|---|---|---|---|---|
| Outstanding at beginning of year | 8,207 | 0.604 | 7,234 | 0.592 |
| Granted | – | – | 2,865 | 0.555 |
| Exercised | (30) | 0.555 | (1,541) | 0.463 |
| Lapsed/forfeited | (394) | 0.579 | (351) | 0.595 |
| Outstanding at end of year | 7,783 | 0.605 | 8,207 | 0.604 |
| Exercisable at end of year | 7,783 | 0.605 | 5,357 | 0.629 |

The following table summarises information about options outstanding and exercisable as at 31 December 2003 to subscribe for ordinary shares of $0.40 each in the Company :

| Date of grant | Outstanding Number of Options | Exercise price per share | Exercisable Exercise period From | To | Number of Options |
|---|---|---|---|---|---|
| 03.05.1999 | 778,000 * | $0.780 | 03.05.2000 | 02.05.2004 | 778,000 |
| 04.09.1999 | 760,000 * | $0.892 | 04.09.2000 | 03.09.2004 | 760,000 |
| 26.05.2000 | 2,025,000 # | $0.630 | 26.05.2001 | 25.05.2010 | 2,025,000 |
| 19.04.2001 | 1,553,000 # | $0.430 | 19.04.2002 | 18.04.2011 | 1,553,000 |
| 05.04.2002 | 2,667,000 # | $0.555 | 06.04.2003 | 05.04.2012 | 2,667,000 |
| | 7,783,000 | | | | 7,783,000 |

* *Options issued under the 1990 Scheme*
\# *Options issued under the 2000 Scheme*

Included in the options outstanding as at 31 December 2003 are 2,340,000 (2002: 2,340,000) options granted to certain 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 2003, the net market value of the assets held by the Fund to meet future payments amounted to $20,040,000 (2002 : $13,873,000) as compared to the present value of employee's accrued and vested benefit of $20,464,000 (2002 : $13,916,000). The last actuarial assessment was completed as at 1 October 2001 by an independent actuary and updated to 31 December 2003 by the fund administrator. An expected rate of return of approximately 6.5% (2002 : 6.5%) per annum and a discount rate of approximately 4.0% (2002 : 4.0%) formed part of the assumptions used by the actuary.

**31. Employee 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 | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| Expenditure contracted for : | | | | |
| - proposed expansion of manufacturing facilities | 8,684 | 2,639 | – | – |
| - others | 60 | 477 | – | – |
| | 8,744 | 3,116 | – | – |
| Approved by the directors but not contracted for | 7,039 | 24,590 | 501 | – |
| | 15,783 | 27,706 | 501 | – |
| (ii) The Group's share of capital expenditure of the joint venture company : | | | | |
| - expenditure contracted for | – | 753 | – | – |
| (iii) Commitments to purchase bulk supplies of raw materials | 5,867 | 28,859 | – | – |

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

| | Group 2003 $'000 | Group 2002 $'000 | Company 2003 $'000 | Company 2002 $'000 |
|---|---|---|---|---|
| Leases which expire : | | | | |
| Within one year | 2,854 | 18,432 | – | – |
| Between one and five years | 7,401 | 27,234 | – | – |
| After five years | 30,151 | 30,719 | – | – |
| | 40,406 | 76,385 | – | – |

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.

(v) 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 | | Company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| (a) Guarantees issued for bank facilities granted to subsidiary companies | – | – | 210,234 | 76,406 |
| Amounts utilised by subsidiaries as at balance sheet date | – | – | 100,419 | 38,732 |
| (b) Guarantees given to third parties in connection with trading facilities provided to subsidiary companies | – | – | – | 500 |
| (c) Outstanding forward exchange contracts | 4,213 | 2,771 | – | – |

At the balance sheet date, there is no material unrealised gain/(loss) on these contracts.

| | | | | |
|---|---|---|---|---|
| (d) Claims by subsidiary companies' employee union and ex-employees via industrial court case | 745 | 98 | – | – |

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 :

| | | | | |
|---|---|---|---|---|
| Purchases from related parties | 269 | 201 | – | – |
| Sales to related parties | 24,775 | 38,347 | – | – |
| Rental paid to a related party | 102 | 115 | 102 | 115 |
| Purchase of property, plant and equipment from a related party | 1,200 | – | 1,200 | – |
| Services rendered by a related party | – | 1,326 | – | – |

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.

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

**Derivative financial instruments**

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

**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 and the unquoted equity shares held as long-term investment and carried at cost of $9,857,000 (2002 : $6,218,000). 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 and disposal of subsidiary companies

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 the financial year.

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

| | Group | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| Total assets | 76,561 | 73,959 |
| Total liabilities | (54,637) | (74,086) |
| | 21,924 | (127) |

The revenues, expenses and results from the ordinary operations up to the date of disposal and for the year ended 31 December 2002 are as follows :

| | | |
|---|---|---|
| Revenue | 235,731 | 269,857 |
| Operating costs | (234,787) | (268,670) |
| Profit from operations | 944 | 1,187 |
| Finance costs | (64) | (268) |
| Profit before taxation | 880 | 919 |
| Taxation | (515) | (372) |
| Profit for the period/year | 365 | 547 |

The net cash flows attributable are as follows :

| | | |
|---|---|---|
| Operating | 7,266 | 8,073 |
| Investing | (3,295) | (2,733) |
| Financing | – | (10,000) |
| Net cash inflows/(outflows) | 3,971 | (4,660) |

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 2003** | | | | | | | |
| Revenue from external customers | 214,926 | 242,796 | 108,658 | 4,671 | 232,234 | – | 803,285 |
| Other revenue from external customers | 1,524 | 2,186 | 952 | 713 | – | – | 5,375 |
| Inter-segment revenue | 4,392 | 13,113 | 4,307 | 9,017 | 659 | (31,488) | – |
| Unallocated revenue | – | – | – | – | – | – | 728 |
| Total revenue | 220,842 | 258,095 | 113,917 | 14,401 | 232,893 | (31,488) | 809,388 |
| Segment results | 28,919 | (42,038) | 1,672 | 1,994 | 1,511 | – | (7,942) |
| Unallocated revenue | | | | | | | 728 |
| Unallocated expenses | | | | | | | (4,812) |
| **Loss from operating activities** | | | | | | | (12,026) |
| Finance costs | | | | | | | (10,431) |
| Exceptional items | | | | | | | 31,473 |
| 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 |
|---|---|---|---|---|---|---|---|
| **Revenue and expenses 2002** | | | | | | | |
| Revenue from external customers | 198,634 | 242,975 | 114,980 | 4,615 | 260,479 | – | 821,683 |
| Other revenue from external customers | 1,633 | 3,520 | 434 | 227 | – | – | 5,814 |
| Inter-segment revenue | 4,630 | 4,866 | 5,697 | 8,123 | 813 | (24,129) | – |
| Unallocated revenue | – | – | – | – | – | – | 1,065 |
| Total revenue | 204,897 | 251,361 | 121,111 | 12,965 | 261,292 | (24,129) | 828,562 |
| Segment results | 22,856 | 5,681 | 2,305 | 335 | 2,499 | – | 33,676 |
| Unallocated revenue | | | | | | | 1,065 |
| Unallocated expenses | | | | | | | (4,435) |
| **Profit from operating activities** | | | | | | | 30,306 |
| Finance costs | | | | | | | (7,269) |
| Exceptional items | | | | | | | 2,547 |
| Share of loss of associated and joint venture companies | | | | | | | (2) |
| **Profit before taxation and minority interests** | | | | | | | 25,582 |
| Taxation | | | | | | | (4,042) |
| Minority interests | | | | | | | (3,181) |
| **Net profit for the financial year** | | | | | | | 18,359 |

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 2003** | | | | | | | |
| Segment assets | 129,121 | 289,319 | 64,612 | 88,145 | – | – | 571,197 |
| Associated companies and joint venture | 2,483 | 3,633 | – | – | – | – | 6,116 |
| Total assets | 131,604 | 292,952 | 64,612 | 88,145 | – | – | 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 |
|---|---|---|---|---|---|---|---|
| **Assets and liabilities 2002** | | | | | | | |
| Segment assets | 127,046 | 261,959 | 75,208 | 20,877 | 67,869 | – | 552,959 |
| Associated companies and joint venture | 3,524 | 3,049 | – | – | – | – | 6,573 |
| Total assets | 130,570 | 265,008 | 75,208 | 20,877 | 67,869 | – | 559,532 |
| Tax recoverable | | | | | | | 3,790 |
| Total assets per consolidated balance sheet | | | | | | | 563,322 |
| Segment liabilities | 28,224 | 34,243 | 10,645 | 1,684 | 36,011 | – | 110,807 |
| Provision for taxation | | | | | | | 4,607 |
| Deferred taxation | | | | | | | 40,366 |
| Bank borrowings | | | | | | | 171,106 |
| Total liabilities per consolidated balance sheet | | | | | | | 326,886 |
| **Other segment information 2003** | | | | | | | |
| Capital expenditure | 19,657 | 4,065 | 729 | 2,428 | 3,405 | – | 30,284 |
| Amortisation and depreciation | 12,912 | 9,258 | 2,238 | 442 | 4,488 | – | 29,338 |
| Impairment loss, net | 1,000 | – | – | – | – | – | 1,000 |
| **Other segment information 2002** | | | | | | | |
| Capital expenditure | 8,741 | 16,367 | 1,990 | 38 | 2,780 | – | 29,916 |
| Amortisation and depreciation | 13,131 | 9,072 | 2,259 | 406 | 5,542 | – | 30,410 |

## 38. Segmental reporting (cont'd)

(b) Geographical segment

| | Singapore $'000 | Malaysia $'000 | Australia $'000 | China $'000 | Philippines $'000 | Other countries $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|
| **2003** | | | | | | | |
| Revenue from external customers | 376,900 | 144,826 | 190,037 | 23,314 | 29,800 | 43,783 | 808,660 |
| Unallocated revenue | | | | | | | 728 |
| Total revenue | 376,900 | 144,826 | 190,037 | 23,314 | 29,800 | 43,783 | 809,388 |
| Segment assets | 171,634 | 90,531 | 286,189 | 8,238 | 20,715 | 6 | 577,313 |
| Capital expenditure | 7,859 | 16,208 | 4,120 | – | 2,095 | 2 | 30,284 |
| **2002** | | | | | | | |
| Revenue from external customers | 409,345 | 127,086 | 173,187 | 41,342 | 25,544 | 50,993 | 827,497 |
| Unallocated revenue | | | | | | | 1,065 |
| Total revenue | 409,345 | 127,086 | 173,187 | 41,342 | 25,544 | 50,993 | 828,562 |
| Segment assets | 185,284 | 82,583 | 254,504 | 11,341 | 20,031 | 5,789 | 559,532 |
| Capital expenditure | 6,536 | 5,332 | 13,095 | 3,271 | 1,625 | 57 | 29,916 |

## 39. Subsidiary, associated and joint venture companies

(a) The subsidiary companies as at 31 December 2003 are :-

| | Name of company (Country of incorporation) | Principal activities (place of business) | Cost 2003 $'000 | Cost 2002 $'000 | Percentage of equity held by the group 2003 % | Percentage of equity held by the group 2002 % |
|---|---|---|---|---|---|---|
| | **Food manufacturing, retailing, trading and logistics** | | | | | |
| | Ben Foods (S) Pte Ltd ✾ (Singapore) | Trading and distribution of food and beverage products (Singapore) | 14,204 | 14,204 | 100 | 100 |
| @ | Ben Foods (East Malaysia) Sdn Bhd ▸ (Malaysia) | Operation of supermarkets (Malaysia) | ✢ | ✢ | 100 | 100 |
| | Ben Trading (Malaysia) Sdn Bhd ▸ (Malaysia) | Trading and distribution of food and beverage products (Malaysia) | + | + | 100 | 100 |
| | Spices of the Orient Pte Ltd ✾ (Singapore) | Manufacture, trading and distribution of food related ingredients and commodities (Singapore) | 5,126 | 5,126 | 100 | 100 |
| | Gardenia Foods (S) Pte Ltd ✾ (Singapore) | Bread manufacturer (Singapore) | 5,516 | 5,516 | 100 | 100 |
| | Gardenia Bakeries (KL) Sdn Bhd ▸ (Malaysia) | Bread manufacturer (Malaysia) | + | + | 70 | 70 |
| | Gardenia Sales & Distribution Sdn Bhd ▸ (Malaysia) | Marketing and distribution of bakery products (Malaysia) | + | + | 70 | 70 |
| | Shop N Save Pte Ltd (Singapore) | Operation of supermarkets (Singapore) | – | 9,894 | – | 51 |
| | Gardenia Foods (Thailand) Limited (Thailand) | Bread manufacturer (Thailand) | – | + | – | 100 |
| | Farmland Central Bakery (S) Pte Ltd ✾ (Singapore) | Purchasing agent of bread, confectionery and bakery products (Singapore) | 500 | 500 | 100 | 100 |
| | Millif Industries Sdn Bhd ▸ (Malaysia) | Manufacture of kaya and related products (Malaysia) | 360 | 360 | 65 | 65 |

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

(a) The subsidiary companies as at 31 December 2003 are :-

| **Name of company (Country of incorporation)** | **Principal activities (place of business)** | **Cost** | | **Percentage of equity held by the group** | |
|---|---|---|---|---|---|
| | | **2003** | **2002** | **2003** | **2002** |
| | | **$'000** | **$'000** | **%** | **%** |
| **Food manufacturing, retailing, trading and logistics (cont'd)** | | | | | |
| Everyday Bakery and Confectionery Sdn Bhd ▸ (Malaysia) | Manufacture of bread, confectionery and bakery products (Malaysia) | + | + | 70 | 70 |
| Ben Fortune Pastry Manufacturing (M) Sdn Bhd ▸ (Malaysia) | Manufacture and distribution of confectionery and pastry (Malaysia) | ✢ | ✢ | 100 | 100 |
| NCS Cold Stores (S) Pte Ltd ✾ (Singapore) | Operation of warehousing logistics (Singapore) | 16,940 | 16,940 | 100 | 100 |
| QAF Fruits Cold Store Pte Ltd ✾ (Singapore) | Operation of cold storage warehouse (Singapore) | + | + | 58 | 58 |
| Gardenia Bakeries (Philippines) Inc. ✤ (Philippines) | Manufacture and distribution of bread, confectionery and bakery products (Philippines) | + | + | 100 | 100 |
| Bonjour Bakery Pte Ltd ✾ (Singapore) | Marketing and distribution of bread, confectionery and bakery products (Singapore) | + | + | 100 | 100 |
| Delicia Sdn Bhd ▸ (Malaysia) | Manufacture of bread, confectionery and bakery products (Malaysia) | + | + | 100 | 100 |
| ✤ Fujian Dongjia Feeds Co Ltd I (People's Republic of China) | Inactive (People's Republic of China) | + | + | 100 | 100 |
| **Production, processing and marketing of pork, and feedmill production** | | | | | |
| QAF Feeds Pty Ltd II (Australia) | Manufacturing of stockfeed and sales and distribution of animal feed products (Australia) | + | + | 100 | 100 |

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

(a) The subsidiary companies as at 31 December 2003 are :-

| Name of company (Country of incorporation) | Principal activities (place of business) | Cost 2003 $'000 | Cost 2002 $'000 | Percentage of equity held by the group 2003 % | Percentage of equity held by the group 2002 % |
|---|---|---|---|---|---|
| **Production, processing and marketing of pork and feedmill production (cont'd)** | | | | | |
| QAF Meat Industries Pty Ltd ▮▮ (Australia) | Intensive pig production and wholesaling (Australia) | + | + | 100 | 100 |
| QAF Meat Processors Pty Ltd ▮▮ (Australia) | Pig slaughtering and meat boning (Australia) | + | + | 100 | 100 |
| Brooksbank Properties Pty Ltd ▮▮ (Australia) | Intensive pig production and wholesaling (Australia) | + | + | 100 | 100 |
| **Investment holding and management** | | | | | |
| QAF Management Services (S) Pte Ltd ✾ (Singapore) | Investment holding (Singapore) | ✢ | ✢ | 100 | 100 |
| QAF Agencies (S) Pte Ltd ✾ (Singapore) | Share trading and investment holding (Singapore) | ✢ | ✢ | 100 | 100 |
| Pemscorp Pte Ltd (formerly known as Eurofood (Singapore) Pte Ltd ✾ (Singapore) | Investment holding (Singapore) | 5,092 | 5,092 | 100 | 100 |
| Oxdale International Pte Ltd (formerly known as Maple Bakeries (S) Pte Ltd) ✾ (Singapore) | Investment holding (Singapore) | ✢ | ✢ | 100 | 100 |
| Gardenia International (S) Pte Ltd ✾ (Singapore) | Investment holding (Singapore) | 7,993 | 7,993 | 100 | 100 |
| ✻ Precious Fortune Limited ✾ (British Virgin Islands) | Investment holding (British Virgin Islands) | ✢ | ✢ | 100 | 100 |
| Singfood Investment Pte Ltd ✾ (Singapore) | Investment holding (Singapore) | ✢ | ✢ | 100 | 100 |

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

(a) The subsidiary companies as at 31 December 2003 are :-

| | Name of company (Country of incorporation) | Principal activities (place of business) | Cost 2003 $'000 | Cost 2002 $'000 | Percentage of equity held by the group 2003 % | Percentage of equity held by the group 2002 % |
|---|---|---|---|---|---|---|
| | **Investment holding and management (cont'd)** | | | | | |
| | Hamsdale International Pte Ltd ✾ (Singapore) | Investment holding (Singapore) | 50,005 | 50,005 | 100 | 100 |
| | Hamsdale Australia Pty Ltd ⏸ (Australia) | Investment holding (Australia) | + | + | 100 | 100 |
| | Camellia Bakeries (S) Pte Ltd ✾ (Singapore) | Investment holding (Singapore) | + | + | 100 | 100 |
| | **Dormant corporations** | | | | | |
| ▲ ✻ | Auspeak Integrated Livestock Farming (Fujian) Co. Ltd. (People's Republic of China) | Dormant | – | – | 100 | – |
| ★ | Ben Foods (Malaysia) Sdn Bhd (Malaysia) | Dormant | – | – | 100 | 100 |
| | Ben (Malaysia) Holdings Sdn Bhd ▸ (Malaysia) | Dormant | ✢ | ✢ | 100 | 100 |
| | Gardenia Bakery & Foodstuff (Tianjin) Co Ltd ❖ (People's Republic of China) | Dormant | 6,350 | 6,350 | 100 | 100 |
| | OSA Marketing Associates (M) Sdn Bhd ▸ (Malaysia) | Dormant | 175 | 175 | 100 | 100 |
| @ | Gardenia (Hong Kong) Limited ➲ (Hong Kong) | Dormant | ✢ | ✢ | 100 | 100 |
| | Bonjour Bakery Sdn Bhd ▸ (Malaysia) | Dormant | + | + | 100 | 100 |
| | Summit Rainbow Sdn Bhd ▸ (Malaysia) | Dormant | + | + | 100 | 100 |
| | | | 112,261 | 122,155 | | |

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

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 $1,000.
- ★ The subsidiary company has been placed under voluntary liquidation as at 31 December 2003
- ✜ The subsidiary company became dormant during the financial year.
- ▲ This subsidiary company was incorporated with a proposed registered capital of United States dollars (US$) 5,000,000 to carry out pig farming and related activities. The capital is payable in two instalments upon the granting of the business licence. The first instalment of 15% of the registered capital is payable by March 2004 and the remaining balance is payable by December 2006.

Audited by :

- ✾ Ernst & Young, Singapore
- ▸ Ernst & Young, Malaysia
- ➲ Ernst & Young, Hong Kong
- ✤ Sycip Gorres Velayo & Co, Philippines
- I Ernst & Young Hua Ming, China
- II Ernst & Young, Australia
- ❖ Other firms of Certified Public Accountants

| Name of company (Country of incorporation) | Principal activities (Place of business) | Percentage of equity held by the group 2003 % | 2002 % |
|---|---|---|---|
| (b) The associated companies at 31 December 2003 are : | | | |
| Philfoods Fresh-Baked Products, Inc (Philippines) | Bread manufacturer (Philippines) | 40 | – |
| Phil Foods Properties Inc. (Philippines) | Investment holding (Philippines) | 40 | 40 |
| Boon Pattana Holdings Limited (Thailand) | Investment holding (Thailand) | – | 39 |
| (c) The joint venture company as at 31 December 2003 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.

## 40.Subsequent events

On 6 March 2004, a subsidiary company had entered into an agreement to subscribe for 70,000,000 shares in PSC Corporation Ltd for a total cash consideration of $8,400,000. The acquisition is conditional upon, inter-alia, the in-principle approval of the Singapore Exchange Securities Trading Limited ("SGX-ST") for the listing and quotation of the shares on the Official List of the SGX-ST.

## 41.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 2004.

# LIST OF MAJOR PROPERTIES

The Group's major properties as at 31 December 2003 are :

| Name of building/location | Description | Tenure of land |
|---|---|---|
| #09-01 to #09-04<br>Fook Hai Building<br>Singapore | Office use | 99 year lease from 18 January 1972 |
| 230B Pandan Loop<br>Singapore | Warehouse, cold store and 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 |
| 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 |
| No. 1 Fishery Port Road<br>Singapore | Cold store, warehouse and office premises | 30-year lease from March 1973 with right to extend for further 30 years |
| No. 9 Fishery Port Road<br>Singapore | Cold store and office premises | 30-year lease from March 1983 |
| Lot 3 Jalan Gergaji<br>15/14<br>40000 Shah Alam<br>Selangor Darul<br>Ehsan, Malaysia | Bakery and office premises | 99-year lease from September 1984 |
| Lot 3, Jalan Pelabur<br>23/1 Seksyen 23<br>Shah Alam<br>Selangor Darul<br>Ehsan, Malaysia | Bakery and office premises | 99-year lease from July 1991 |
| No. 23 & 25, Jalan<br>PJS 11/16, Sunway<br>Technology Park,<br>Bandar Sunway<br>46150 Petaling Jaya<br>Malaysia | Bakery and office premises | 99-year lease from January 1997 |
| Junction of Lu Yuan Street<br>Quan Wang Road<br>Wuqing Development Area<br>Tianjin<br>China 301700 | Food processing and office premises | 50-year lease from June 1994 |
| Yuan Hong Industrial Park,<br>Fuqing, Fujian Province | Feed processing and office premise | 50-year lease expiring December 2050 |
| Lot No. 3803, Mukim Klang<br>Daerah Klang,<br>Selangor Darul Ehsan<br>Malaysia | Bakery and office premises | Freehold |

**List of major properties (cont'd)**

| Name of building/location | Description | Tenure of land |
|---|---|---|
| Lot No. PT D28 & D29<br>Pinwang Industrial Park<br>Petaling Jaya<br>Selangor Darul Ehsan<br>Malaysia | Bakery and office premises | 99-year lease from October 1997 |
| Gre Gre<br>(Northern and Southern Property)<br>Carrolls Bridge Road<br>Gre Gre, Victoria 3478 | Piggery Farming | Freehold |
| Sunraysia Highway<br>St Arnaud Unit 1<br>St Arnuad, Victoria 3478 | Piggery Farming | Freehold |
| Nelson Road<br>St Arnaud Unit 2 & 3<br>St Arnuad, Victoria 3478 | Piggery Farming | Freehold |
| Huntly Farm No. 1 and 2<br>Bendigo-Tennyson Road<br>Huntly, Victoria 3351 | Piggery Farming | Freehold |
| Beenak Road,<br>Seville, Victoria 3139 | Piggery Farming | Freehold |
| Willow Grove Road<br>Crown Allotment 32 and 33<br>Trafalgar, Victoria 3824 | Piggery Farming | Freehold |
| Balpool 1 & 2<br>Balpool Stn<br>Balpool Lane Moulemein,<br>New South Wales 2733 | Piggery Farming | Freehold |
| Corowa Piggery<br>Redlands Road, Cororwa,<br>New South Wales 2646 | Piggery Farming | Freehold |
| Corowa Mill<br>Corowa, New South Wales 2646 | Feedmilling | Freehold |
| Bungowannah<br>Howlong Road Bungowannah,<br>New South Wales | Piggery Farming | Freehold |
| Lot 17, LP42510<br>13-15 Thomas Street<br>Laverton, North Victoria | Abattoir | Freehold |

# STATISTICS OF STOCKHOLDINGS

as at 17 March 2004

| | | |
|---|---|---|
| Authorised Share Capital | : | $400,000,000 |
| Issued and Fully paid-up Capital | : | $140,512,149 |
| 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 | 281 | 5.28 | 72,767 | 0.02 |
| 1,000 - 10,000 | 4,160 | 78.23 | 17,138,491 | 4.88 |
| 10,001 - 1,000,000 | 868 | 16.32 | 42,261,384 | 12.03 |
| 1,000,001 and above | 9 | 0.17 | 291,807,731 | 83.07 |
| | 5,318 | 100.00 | 351,280,373 | 100.00 |

## LIST OF TWENTY LARGEST STOCKHOLDERS

| S/No. | Stockholders' Name | No. of Stock Units | % |
|---|---|---|---|
| 1. | UOB Kay Hian Pte Ltd | 191,197,152 | 54.43 |
| 2. | Citibank Nominees Singapore Pte Ltd | 46,910,412 | 13.35 |
| 3. | Goi Seng Hui | 18,798,000 | 5.35 |
| 4. | United Overseas Bank Nominees Pte Ltd | 9,030,500 | 2.57 |
| 5. | Oversea Chinese Bank Nominees Pte Ltd | 7,809,667 | 2.22 |
| 6. | DBS Nominees Pte Ltd | 6,793,000 | 1.93 |
| 7. | Chip Lian Investments Pte Ltd | 5,461,000 | 1.56 |
| 8. | Ee Hock Leong Lawrence | 4,338,000 | 1.24 |
| 9. | Capital Intelligence Limited | 1,470,000 | 0.42 |
| 10. | G K Goh Stockbrokers Pte Ltd | 794,920 | 0.23 |
| 11. | Phillip Securities Pte Ltd | 771,400 | 0.22 |
| 12. | OCBC Securities Private Ltd | 683,000 | 0.19 |
| 13. | Lim Sou Ping | 575,000 | 0.16 |
| 14. | Gerk Thiam Kwee | 534,000 | 0.15 |
| 15. | Kim Eng Securities Pte Ltd | 533,000 | 0.15 |
| 16. | HL Bank Nominees (S) Pte Ltd | 516,000 | 0.15 |
| 17. | Au Eng Fong | 500,000 | 0.14 |
| 18. | Tan Siew Keng Christina | 500,000 | 0.14 |
| 19. | Teh Kiu Cheong | 500,000 | 0.14 |
| 20. | Huang Ping K'nar | 470,000 | 0.13 |
| | | 298,185,051 | 84.87 |

## SUBSTANTIAL STOCKHOLDERS

| Substantial Stockholder | Direct Interest No. of Shares | % | Deemed Interest No. of Shares | % | Total Interest No. of Shares | % |
|---|---|---|---|---|---|---|
| Andree Halim | 187,194,152 | 53.29 | – | – | 187,194,152 | 53.29 |
| Watford Investments Ltd | 42,383,712 | 12.06 | – | – | 42,383,712 | 12.06 |
| Goi Seng Hui | 18,798,000 | 5.35 | – | – | 18,798,000 | 5.35 |

| Deemed Substantial Stockholder | Direct Interest No. of Shares | % | Deemed Interest No. of Shares | % | Total Interest No. of Shares | % |
|---|---|---|---|---|---|---|
| Didi Dawis | 3,437,000 | 0.98 | 42,383,712 | 12.06 | 45,820,712 | 13.04 |
| Saiman Ernawan | – | – | 42,383,712 | 12.06 | 42,383,712 | 12.06 |

* *Mr Didi Dawis is deemed interested in the stock units beneficially owned by Watford Investments Ltd by virtue of the provisions in Section 7 of the Companies Act, Cap. 50.*

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

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at No. 224 Pandan Loop, Singapore 128411 on 30 April 2004 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 2003 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 2003. (Resolution 2)

3. To re-elect the following Directors:

   (a) Mr Didi Dawis (retiring under Article 94 of the Articles of Association) (Resolution 3a)

   (b) Mr Derek Cheong Kheng Beng (retiring under Article 94 of the Articles of Association) (Resolution 3b)

   (c) Mr Andree Halim (retiring under Article 98 of the Articles of Association) (Resolution 3c)

   (d) Mr Phua Bah Lee (retiring under Section 153(6) of the Companies Act, Cap. 50) (Resolution 3d)

4. To approve Directors' fees of $118,500 for the year ended 31 December 2003 (2002: $98,000). (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 Executives' Share Option 1990 and 2000 Schemes respectively; 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 12 May 2004 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 2003. 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 11 May 2004 will be registered before entitlements to the dividends are determined. Payment for the dividend shall be made on 21 May 2004.

Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with stock units at 5.00 p.m. on 11 May 2004 will be entitled to the dividend.

By Order of the Board

LEE WOAN LING (Ms)
Company Secretary

Singapore, 8 April 2004

**Explanatory Notes:**

i) For Ordinary Resolutions:

3(a) - Mr Didi Dawis is a non-executive Director of the Company and the Chairman of the Board of Directors.

3(b) - Mr Derek Cheong Kheng Beng is an executive Director of the Company.

3(c) - Mr Andree Halim was appointed on 11 October 2003 as a Director of the Company. Mr Halim is the controlling shareholder of the Company.

3(d) - 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 Share Option Schemes which were approved by the members of the Company in year 1990 and 2000 respectively. The 1990 Share Option Scheme had expired on 31 December 1999 but options granted thereunder are validly exercisable up to five calendar years from the respective dates of grant. 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.

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# PROXY FORM
## 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 30 April 2004 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: | | |
| | (a) Mr Didi Dawis | | |
| | (b) Mr Derek Cheong Kheng Beng | | |
| | (c) Mr Andree Halim | | |
| | (d) 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 Share Option Schemes. | | |

Signed this __________ day of __________ 2004 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 officer duly authorised.
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)

Created by CiCADA DESIGN


QAF Limited

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