QAF Limited

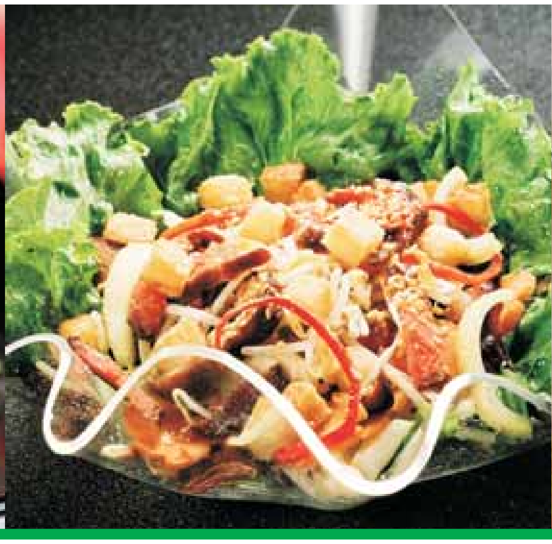
FACETS OF GROWTH

annual report 2006








Festive
Country
LOAF

CHAIRMAN'S STATEMENT

Group revenue reached a new high of $992.0 million and Group profit before taxation and Group profit after taxation for the financial year ended 31 December 2006 ('FY2006') were $29.0 million and $19.5 million, respectively.

I am pleased to note that the Group has now reached a level that it can achieve success despite certain difficulties and challenges which faced the Group in 2006. I am also confident that the Group will achieve further success in its path to establish itself as a leading player in the regional food industry.

The Directors are pleased to recommend a first and final dividend of 2.0 cents per share less tax at 18% for FY2006. In addition to the above, there is also a proposal to distribute dividends in specie in the form of quoted shares currently held by QAF in its associated companies.

On behalf of the Board, I would like to thank all the shareholders, bankers, customers, employees, suppliers and business associates for their continuing support of the QAF Group.

Didi Dawis
Chairman
30 March 2007

GROUP MANAGING DIRECTOR'S REPORT

The past year had been one of the most challenging years for the QAF Group. Despite certain difficulties that were encountered, the QAF Group continued its growth path in 2006 with the Group achieving increases in Group turnover and profitability. The Group's established presence in its markets in the Asia Pacific region has made the Group resilient in the face of challenges and has allowed it to achieve growth and profitability on an overall basis despite difficult circumstances.

Group revenue for the financial year ended 31 December 2006 ('FY2006') increased by 12% to $992.0 million from $885.9 million for the financial year ended 31 December 2005 ('FY2005'). This increase in Group revenue resulted from increases in revenue achieved by the Group's Manufacturing and Bakery business segments. The Group's subsidiary which is involved in the manufacturing of apple juice concentrates in China, Shaanxi Hengxing Fruit Juice Co. Ltd. ('Shaanxi Hengxing'), saw significant increases in sales which came from both higher selling prices as well as increased sales volume. However, Challenge Australian Dairy Pty. Ltd. ('Challenge'), the subsidiary which is involved in the manufacturing and trading of milk and dairy products, saw lower sales due to the reduced availability of raw milk supplies in Western Australia during FY2006. The Gardenia bakery operations in Malaysia and the Philippines achieved increased revenues as a result of better market penetration while Bakers Maison Pty. Ltd., the Group's bakery operation in Sydney, Australia also achieved a significant increase in sales for its products. However, sales for the Singapore Gardenia operation declined due to intense competition. Within the Primary Production segment, the Group's fully integrated producer of meat in Australia, QAF Meats, faced a decline in sales as it ceased the business of trading of third party livestock in FY2006 and concentrated on developing and selling higher value added products instead. Oxdale Dairy Enterprise Pty. Ltd., the Group's dairy producer in Australia also achieved higher sales.



Group profit from operating activities for FY2006 has grown by a significant $24.3 million or 59% to $65.5 million as compared to the Group profit from operating activities of $41.2 million for FY2005. The increase is mainly attributable to higher profits achieved by the Food Manufacturing, Primary Production and the Trading & Logistics segments. Within the Food Manufacturing segment, Shaanxi Hengxing achieved a substantial increase in profitability with increased sales and higher overall selling prices for its products. Unfortunately, Challenge faced increased operating losses in FY2006 due to reduced sales and lower selling prices of commodity products. Operating profits for the Primary Production segment also rose significantly as QAF Meats achieved gains from the sale of more value added products. The Trading & Logistics segment also achieved a significant increase in profits due to continuing rationalisation programmes in the Group's trading and wholesaling businesses in Singapore and Malaysia. While the bakery operations in Malaysia and the Philippines continued to achieve increases in profits as a result of higher sales as well as production and distribution efficiencies, profitability of the Singapore Gardenia bakery operations fell due to lower sales which resulted from intense competition.

A listed subsidiary, China Food Industries ('CFI'), restated its financial statements for FY2005 and made a write-off of $13.1 million for inventory and trade receivables for FY2005. CFI also had to make a provision of $11.6 million for impairment of its PRC subsidiary companies' property, plant, equipment and Land Use Rights for FY2006. These Exceptional Losses are consolidated into the QAF Group's accounts as CFI is a subsidiary of the QAF Group. The Group has also made a provision of about $8.5 million in FY2006 for impairments of its investments in its associate, Zhongguo Jilong Limited, as well as in the Group's other long-term investments.

Despite the abovementioned write-offs and provisions, Group profit before tax ('PBT') for FY2006 increased significantly by $11.3 million or 64% to $29.0 million when compared to the Restated PBT of $17.7 million for FY2005.

Group profit after tax ('PAT') rose by an even more significant 71% to $19.5 million for FY2006 from $11.4 million for FY2005. The increase in Group PAT is more than the increase in Group PBT as there is no tax charge for QAF Meats of Australia due to carried forward tax credits which were not recognised previously.

The Group has continued to achieve new levels at the operating level. Shaanxi Hengxing has further established its position as the leading manufacturer and producer of apple juice concentrates in the world. It achieved significant increase in export sales to the United States, Canada, the European Union, Russia, Australia and the Middle East. The company has also successfully developed additional complementary product lines such as other fruit juice concentrates for the export market as well as its own line of juices and fruit-based beverages for the rapidly growing consumer market in China.

QAF Meats of Australia has also further established itself as the leading producer of meat in the region. The company has achieved success in its strategy of positioning itself as the leading producer and distributor of fresh meat products to the retail industry. The move towards the production of higher value products has resulted in increased profitability for the company. In its continuing effort to make the company a leader in terms of efficiency and high health status, QAF Meats has carried out certain initiatives in 2006. It has purchased a production site in Victoria and will develop it into a high health terminal nucleus breeder herd site which is isolated from the rest of the company's herd. This will ensure that the company will always have access to a breeder herd which will not be affected by any possible disease outbreak. QAF Meats has also established a land leasing programme with local farmers to secure the cropping of required feed grains at advantageous cost for the company's stockfeed mills.

The Gardenia bakery operations in Malaysia and the Philippines have continued to grow to new levels. In Malaysia, 70% owned subsidiary Gardenia Bakeries (KL) Sdn. Bhd. ('GBKL'), achieved another record in terms of turnover despite strong competition. The company also continued to achieve gains from efficiency and productivity which more than offset general cost increases and this combined with the increased sales have led to increased profitability for the company. New products were also successfully launched. GBKL is the largest bakery operation in South East Asia with 4 plants with 4 fully automated bread production lines and 3 bun and roll lines as well as its established distribution network of more than 20,000 outlets. As full capacity has been reached again, the company is embarking on a programme to instal an additional 8,000 loaves per hour fully automated bread line which should be commissioned in early 2008. This will be the company's eighth production line.

Wholly owned Gardenia Bakeries (Philippines) Inc. ('Gardenia Philippines'), achieved another record in turnover in 2006. Gardenia is now the market leader in both the loaf bread and pandesal (buns) markets in Metro Manila. New products were successfully launched in 2006 and the company's distribution system has been expanded to serve other regional markets outside of Metro Manila. Gardenia Philippines' production capacity is now fully utilised and the company is finalising a proposal to instal its third fully automated bread production line.

However, the Gardenia Singapore operation faced increased competitive pressures in 2006 and this resulted in reduced sales and profitability.

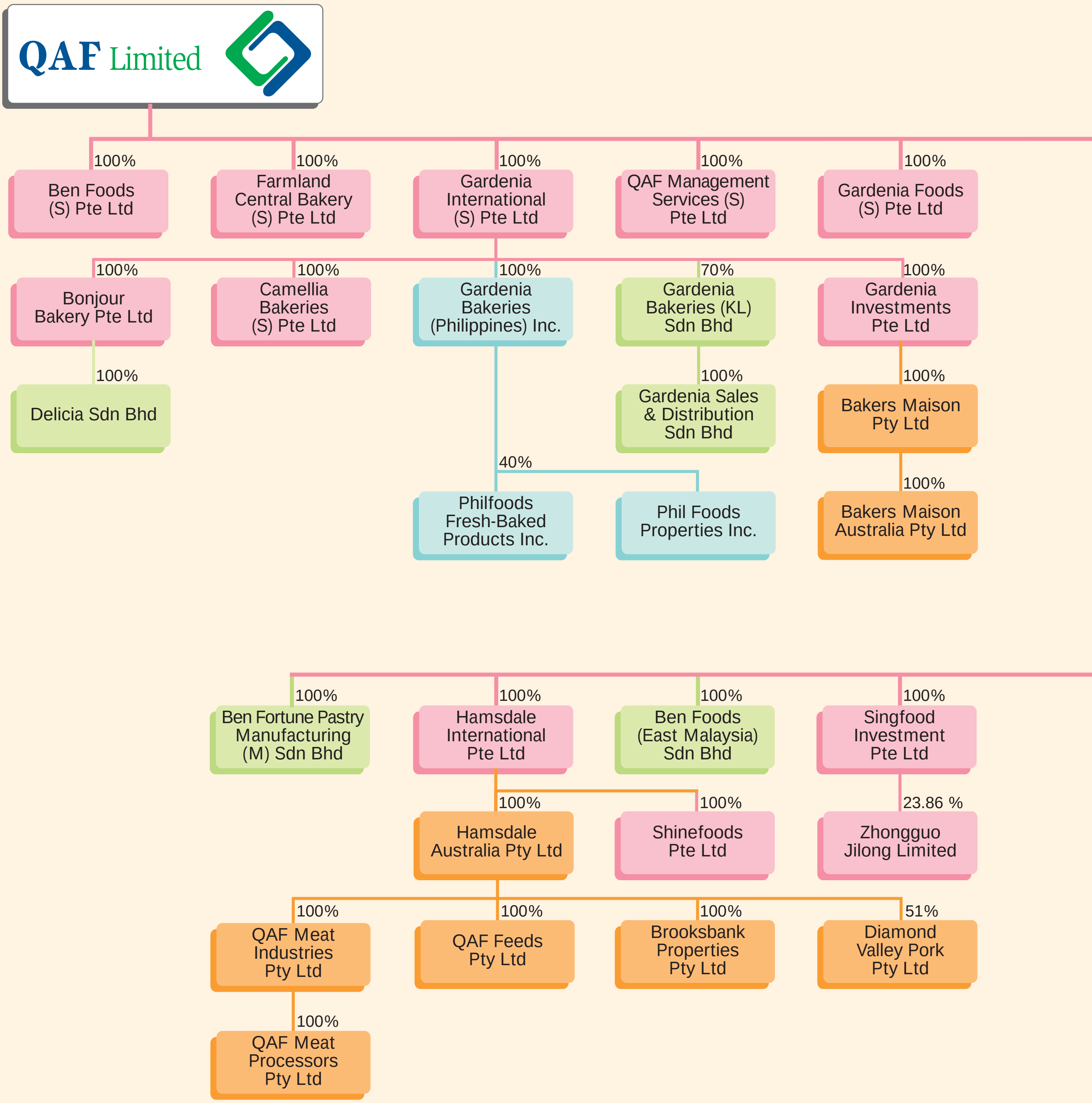
We are pleased to note that the QAF Group has continued to achieve success in its programme of growth. QAF is now ranked within the top 40 public listed companies in Singapore in terms of sales turnover. This along with other awards given in the past show that QAF is a fast growing food group with established businesses in the regional food industry.

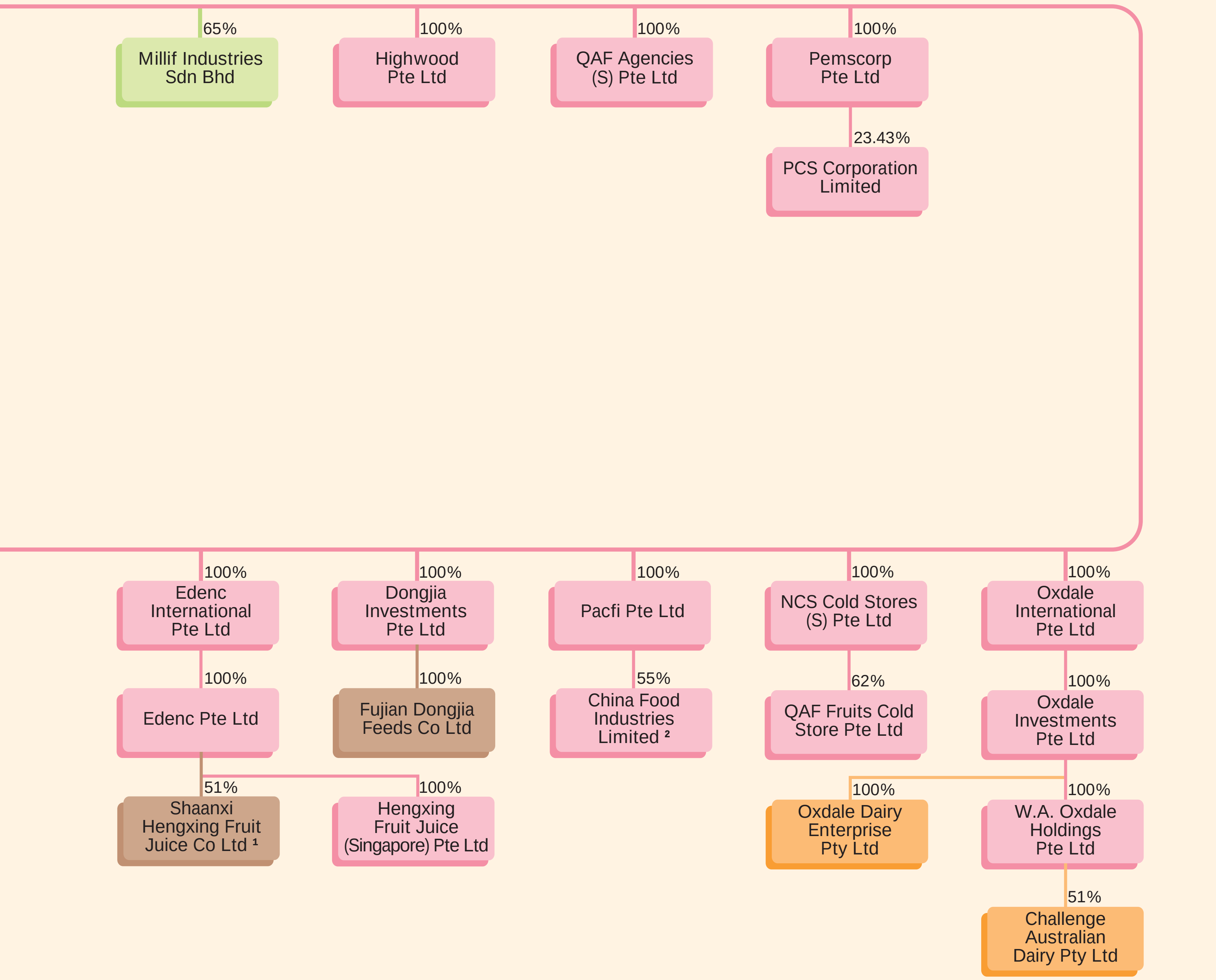
As a reward to its loyal shareholders, QAF is proposing to distribute dividends in specie in the form of quoted shares which QAF currently holds in its associated companies. This is in addition to the proposed first and final dividend of 2.0 cents per share less tax at 18% for FY2006. This distribution of dividends allows QAF to return value to its shareholders by utilising the company's Section 44A tax credits for the benefit of the shareholders. Shareholders can elect to either dispose of the quoted shares upon receipt or retain them and be direct shareholders in these listed associated companies.

The QAF Group has and will continue to overcome the challenges and achieve success in the regional food industry and markets. The key competitive advantages developed by management over the years will enable the Group to achieve success. We expect that, on an overall basis, the businesses within the Group's Food Manufacturing, Bakery and Primary Production business segments will achieve even better results in the year ahead. As such, we have full confidence that the QAF Group will continue to do well and attain new heights in its path towards establishing itself as a major food group in the region.

Tan Kong King
Group Managing Director
30 March 2007

GROUP STRUCTURE as at 30 March 2007





Notes:

This chart does not reflect (i) QAF subsidiaries which are currently dormant and (ii) PSC Corporation Limited and Zhongguo Jilang Limited's interests in their respective subsidiaries and associated companies.

1 Shaanxi Hengxing Fruit Juice Co Ltd holds the interests in 8 wholly-owned subsidiaries, namely Yangling Hengxing Seeding Co Ltd, Shaanxi Hengxing Fruit Juice Co Ltd Heyang Plant, Linyi Hengxing Fruit Juice Co Ltd, Zhongning Hengxing Fruit Juice Co Ltd, Qixian Hengxing Fruit Juice Co Ltd, Chunhua Hengxing Fruit Juice Co Ltd, Jingchuan Hengxing Fruit Juice Co Ltd and Meixian Hengxing Fruit Juice Co Ltd.

2 China Food Industries Limited holds the interests in 3 wholly-owned subsidiaries, namely Thye Seng Trading Co Pte Ltd, Junan Hengxing Foodstuffs Co Ltd and Shandong Xinquan Grain & Oil Co Ltd.

Legend:
- Singapore
- Malaysia
- Philippines
- Australia
- China

BOARD OF DIRECTORS

Didi Dawis | Chairman

Tan Kong King | Group Managing Director

Andree Halim | Vice Chairman

Tarn Teh Chuen

CORPORATE INFORMATION

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

Secretary
Ms Lee Woan Ling

Place Of Incorporation
Singapore

Date Of Incorporation
3 March 1958

Company Registration No.
195800035D

Registrar
Tricor Barbinder Share Registration Services
(A division of Tricor Singapore Pte Ltd)
8 Cross Street
#11-00 PWC Building
Singapore 048424
Tel: 6236 3333
Fax: 6236 3405

Derek Cheong Kheng Beng

Phua Bah Lee

Kelvin Chia Hoo Khun

Tan Hin Huat

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

Nominating Committee
Mr Phua Bah Lee
Mr Didi Dawis
Mr Tan Kong King

Remuneration Committee
Mr Didi Dawis
Mr Phua Bah Lee
Mr Kelvin Chia Hoo Khun

Principal Bankers
DBS Bank Limited
Rabobank International
Sumitomo Mitsui Banking Corporation
United Overseas Bank Limited

Auditors
Ernst & Young
One Raffles Quay
North Tower, Level 18
Singapore 048583

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

DIRECTORS OF THE COMPANY

Didi Dawis, aged 61, was appointed as a Director of the Company on 15 March 1988 and has been holding the position as Chairman of the Board since July 1990. He was last re-elected to the Board on 30 April 2004. As an established entrepreneur, Mr Dawis has interests in various businesses in Indonesia including being the sole franchise holder of Video Ezy, trading and distribution of building materials, real estate development, hotel and banking; some of which corporations he is also acting as the president director or chairman. He had also been the owner and joint-venture partner of a news magazine and a newspaper in Indonesia for some 8 years. Mr Dawis was instrumental in setting up the social lottery enterprise for the Indonesian Department of Social Affairs from 1986 to 1993 and is a member of the councils of several charitable and civic associations in Indonesia. As from July 2004, he has assumed the post as the executive vice-chairman of the Indonesian Chamber of Commerce and Industry, Kadin Indonesia-China Committee.

Andree Halim, aged 59, was appointed as a Director and Vice Chairman of the Company on 11 October 2003. He was last re-elected to the Board on 28 April 2006. Mr Halim graduated with a diploma in Business Studies from the South East London Technical College of United Kingdom. Mr Halim is an entrepreneur and holds interests in a wide range of businesses. He is the Vice-Chairman of Peaktop International Holdings Limited, a corporation listed in the Hong Kong Stock Exchange. He also holds directorships in various other private enterprises.

Tan Kong King, aged 56, was first appointed as a non-executive Director of the Company on 15 June 1995 and assumed the position as the Group Managing Director of the QAF Group in January 1996. Since then, Mr Tan has streamlined and refocused the QAF Group in the food industry, expanding the Group's existing 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 a diversity of new food-related segments, such as the livestock and meat production, dairy and milk industry and fruit juice concentrate industry, which set the ground for the Group's further growth and expansion. In the early part of his career, Mr Tan had worked with an international accounting firm for 5 years. Subsequent to which he joined and assumed the managing directorship for the KMP Private Ltd group of companies from 1981 to 2004. Mr Tan has over 26 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 Tan is also the executive chairman of China Food Industries Limited, a public-listed subsidiary of the Company.

Tarn Teh Chuen, aged 47, was appointed as a Director on 15 June 1995 and last re-elected to the Board on 29 April 2005. Ms Tarn was made an executive Director and as the Head of Treasury for the QAF Group in 1998 taking charge of the planning and management of group financing matters. Ms Tarn started working for KMP Pte Ltd group of companies in 1983 as an accountant and assumed the post of group financial controller from 1990 until 2004. She has over 17 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.

Derek Cheong Kheng Beng, aged 52, was appointed as a Director on 18 January 1996 and last re-elected to the Board on 30 April 2004. Mr Cheong was made an executive Director and 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 Pte Ltd group of companies for 7 years. He had also worked as a treasury manager in a Singapore listed construction and engineering company, a corporate manager of United Industrial Corporation Limited as well as an assistant manager of Loans & Syndications in a merchant bank in Singapore before joining the KMP Group. Mr Cheong graduated with a Bachelor of Commerce degree from the University of Toronto, Canada. He also holds a Master of Business Administration from the University of British Columbia, Canada.

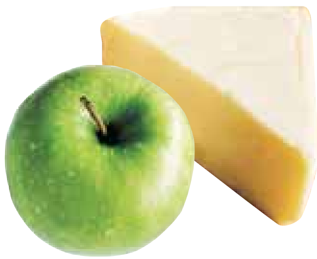
Phua Bah Lee, aged 74, was appointed as an independent non-executive Director on 8 January 1990. He was last re-elected to the Board on 28 April 2006. Mr Phua was an established member of the Government of Singapore having served as the Parliamentary Secretary of the Ministry of Communications from 1968 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 graduated from the Nanyang University in Singapore with a degree in Bachelor of Commerce.

Mr Phua is also a non-executive director of other Singapore listed companies, namely Singapura Finance Ltd, Wing Tai Holdings Ltd, GP Batteries International Ltd, Metro Holdings Limited, Pan-United Corporation Ltd and GP Industries Limited.

Kelvin Chia Hoo Khun, aged 55, 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 April 2005. Mr Chia is the senior managing partner of Kelvin Chia Partnership, a regional law firm with offices in Singapore, Vietnam, China, North Korea and Myanmar. He specialises in the investment laws in various developing countries in the region and commercial litigation in Singapore. Mr Chia is also a director of Bausch & Lomb Singapore Pte Ltd, Spear Leeds & Kellogg (Singapore) Pte Ltd and several other private companies. Mr Chia holds a Bachelor of Law degree from the University of Singapore.

Tan Hin Huat, aged 54, was appointed as an independent non-executive Director of the Company on 2 September 2002. He was last re-elected to the Board on 28 April 2006. Mr Tan is currently a Senior Vice President of EFG Bank, Singapore Branch (Merchant Bank). He has more than 26 years of working experience in regional banking business covering the area of corporate banking, trade finance and private banking. Prior to joining EFG 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.

FOOD MANUFACTURING



FOOD MANUFACTURING

Shaanxi Hengxing Fruit Juice Co Ltd ('Shaanxi Hengxing')

51% owned Shaanxi Hengxing is the largest producer of apple juice concentrates in both China and the world. The company produces approximately 20% of China's total annual production.

With its headquarters in China's main apple growing region of Shaanxi, the company has 10 production facilities located in 4 provinces, which are capable of producing a total of 225,000 MT of apple concentrate products per annum. The company has a total annual requirement in excess of 1 million MT of apple fruits and these are sourced mainly from external third party farmers as well as contract growers who plant, grow and harvest apple trees on behalf of the company.

Over 90% of Shaanxi Hengxing's products are exported to the major markets of the United States, Canada, the European Union, Russia, Australia and the Middle East. The largest markets for apple juice concentrates are North America and the European Union.

Since the acquisition of Shaanxi Hengxing by the QAF Group, the company has developed additional complementary product lines. New products such as pear juice concentrates have been developed. China's relatively low but rising domestic consumption of fruit juice gives Shaanxi Hengxing the opportunity to develop and produce its own line of juices and fruit-based beverages and tap into this large domestic consumer market. The company has developed a new line of pomegranate juice products.

Apple pomace is a by-product of the apple juice concentrate extraction process and this by-product is further processed and sold as feed for livestock. Another by-product is fructose which is being increasingly used by food manufacturers as a sweetener in processed foods such as bakery and confectionery products instead of cane sugar. The demand for fructose as a healthier alternative to cane sugar is on the uptrend as fructose is sweeter than cane sugar but contains much lower calories. The company's sale of pomace and fructose is developing well and they are becoming an important source of additional revenue.

Challenge Australian Dairy Pty Ltd ('Challenge')

Challenge is one of the leading companies in Western Australia which is involved in the trading of raw milk as well as the manufacturing and processing of fresh milk, cheese, butter, milk and whey powders as well as other dairy products. These products are exported as well as sold in the Australian markets. The company has 2 production facilities located at Western Australia - Capel and Boyanup.

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

CDC shareholder members constitute approximately half of the total number of dairy farmers in the state of Western Australia. The membership base can be expanded and existing members also have the capability to increase their production volumes easily. As such, the volume of raw milk supplies can be increased significantly within a relatively short period of time and Challenge will have access to a sizeable amount of raw milk for its manufacturing and processing operations. This unique arrangement gives Challenge a competitive advantage especially in the current situation of rapidly rising demand in the Asian and global markets.

From its position as a major player in the Western Australian milk and cream market, Challenge is now shifting progressively to the higher value added markets. The company has installed new automated equipment to produce its own range of branded products such as Capel Valley waxed

cheeses and cracker rounds which are now listed in a major supermarket chain, Capel Cut which is made for the special needs of the food service industry, the Capel Supreme yoghurt and the new Capel Choice range of value added cheeses such as Cheddar (mild, tasty, vintage), Edam, Gouda, Lite, Mozarella and Romano. The Capel Choice range includes shredded, sliced and block cheese.

Several initiatives were implemented in 2006 which are part of Challenge's plan to reposition itself as a manufacturer of higher value added markets. The Boyanup facility has been converted to produce higher margin frozen cream and concentrate products from that of its original production of low margin commodity products such as milk powders, butter and bulk cheese. The new products are now being exported.

New automated equipment have also been commissioned which allows Challenge to produce retail cheese products which command higher margins than bulk cheese. Sales of the company's retail cheese products have been encouraging.

Challenge is now studying new possibilities to develop, produce and sell higher value dairy products for the Australian and export markets.

variety

BAKERY

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

Wholly owned Gardenia Singapore continued to face intense competition with competitors resorting to drastic reductions in selling prices as well as giveaways such as a free loaf with every loaf purchased. These actions have resulted in reduced profitability for many industry players. Gardenia Singapore continues to maintain its top position in the Singapore branded bread market.

Gardenia Singapore continues to introduce new products which cater to the taste of its consumers. Two new variants, the Gardenia Savoury Delight and the Gardenia Festive Country Loaf were added to the Gardenia Country Loaf range in 2006. This latter range was developed to cater to the increased demand for European crusty bread products in the Singapore market. In February 2006, the company introduced the Gardenia Junior White to complement the popular Gardenia Enriched White Bread. The Junior White is a smaller loaf version of the latter.

Gardenia's strong market leadership and stringent food safety standards were recognised when Gardenia Singapore was named as the Agri-Veterinary Authority ('AVA') Food Safety Partner in June 2006. This award is a 'first' in the bread industry and Gardenia continues to set new industry standards with a consistently maintained high food safety standard. The company has achieved the Grade A status award given by the AVA for the last 11 years.

Major initiatives were launched by Gardenia Singapore during 2006 in the areas of community programmes and public relations. The company collaborated with the Health Promotion Board's Osteoporosis Education Programme in promoting bone health with our Gardenia Hi Calcium Milk Bread. Gardenia Singapore also worked closely with the Singapore Heart Foundation to promote the Healthy Heart Diet programme with the Gardenia High Fibre White and Gardenia Fine Grain Wholemeal products.

In the area of public relations, Gardenia Singapore was one of the sponsors for the musical pantomime, Hello Kitty's Fantastical Adventure. To build brand visibility, Gardenia ran a National Consumer Promotion programme where customers qualify for chances to win cash as well as tickets to the musical by submitting Gardenia packagings. Consumers were also entitled to further discounts on tickets for the musical at ticket booths if they brought along Gardenia packagings. These programmes were implemented in addition to the Gardenia regular public relation activities at the Singapore Food Expo where the Gardenia Country Loaf range was promoted. Gardenia Singapore also continued to reach out to the school community through its active participation in the School Health Fairs by organising and sponsoring sandwich making competitions and health talks. An activity book titled Gardenia Adventure Puzzle Book was launched in August 2006 which creates awareness for Gardenia products in an enjoyable and interactive way for children.

Malaysia

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

70% owned subsidiary, GBKL, operates the largest bakery operation in Malaysia. Its 4 plants in West Malaysia, with 4 bread production lines and 3 bun and roll lines, are capable of producing a combined total of about 500 million loaves and buns per annum. This makes GBKL's bakery operations the largest in South East Asia.

The company's high quality products continued to receive wide market acceptance. Its growth impetus continued in 2006 with turnover achieving a new record of RM330.6 million despite strong competitive activities. This achievement reflects Gardenia's strong brand image and its dominant leadership position in the bakery industry in West Malaysia.

Cost increases, especially raw materials and fuel costs, continued to affect profit margins. However, these increases were cushioned by overall increases in efficiency and productivity from the rationalisation of product mix as well as yield improvements. Overall profitability reached a new record again.

The company benefited from the launch of the Bonanza Big Big Value product following the good acceptance of the Bonanza range of bread products from the price sensitive segment of the market. In addition, the range of snack cakes was increased with two additional choices in Quick Bites Banana and Quick Bites Double Chocolate.

The company further widened its already extensive market reach by adding on more routes and distribution outlets. Its excellent and extensive distribution network comprises more than 20,000 outlets throughout Peninsular Malaysia. This strength, coupled with strong management and control systems, are continuously being reinforced by on-going brand enhancement programmes. Steps to strengthen and enhance brand identity through marketing programmes continued during the year.

Barring unforeseen circumstances, the performance of the company will continue to reach new heights in terms of turnover and profitability.

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

Sales of Gardenia Philippines reached a new record of 1.4 billion pesos (S$41.8 million) in 2006. This was achieved despite the bread market in the Metro Manila market remaining flat throughout the year. Profitability also improved over that of the previous year in spite of higher raw material, energy and fuel costs. The increased profitability resulted from higher selling prices and productivity improvements.

Gardenia's market share in the Metro Manila bread market has now reached 62%. This dominance is clearly seen in light of the fact that the company's next 2 largest competitors only hold 7% and 5% market shares, respectively. In the specific white sandwich loaf market, Gardenia Philippines has captured an even larger 73% market share.

During 2006, Gardenia Philippines launched a major marketing and advertising campaign and captured a 44% share of the Pandesal bun (a popular bakery product in the Philippines) market in the Metro Manila market. Gardenia is now the dominant brand in both the loaf and pandesal markets in Metro Manila.

Gardenia Philippines also offers a range of healthy and delicious range of products under its 'Healthylicious' line. The Honey Oat Loaf was introduced and was well received by the market. This product is made with the natural goodness that comes with oats and honey which provide benefits for health. Another 'Healthylicious' product introduced was the High Calcium Milk Bread. It offers multi-health benefits plus the rich, delicious creamy taste of milk in every bite. It is rich in calcium that helps build stronger bones and teeth but is low in fat and has no cholesterol and these will help improve one's overall cardiovascular health. It also has no transfat and has health and good dietary benefits.

BAKERY

To strengthen its position in the Snack cake market, the company launched its line of Gardenia Muffins with 3 flavours - Blueberry, Chocolate and Corn. The popular Twiggies snack cake line was expanded with the addition of a new Strawberry flavour in a moist chiffon cake to its established Twiggies chocolate and vanilla flavours. The Gardenia filled bun line was expanded to include a new Peach Mango product line.

Within the Pandesal bun market, Gardenia Philippines continued to grow its market share by launching its Soft Delight Pandesal Family Pack which offer an affordable pack of Pandesals for the whole family.

The company has increased its distribution system to serve markets outside Metro Manila from Ilocos and Cagayan Valley in the north down to the Bicol Region, Panay and western Negros in the south. Gardenia is now available throughout the major regional markets in the Philippines except for the Visayas and Mindanao. The company is also intensifying its coverage and market servicing with the use of third party Territorial Distributors to cover the small variety stores within Metro Manila and its surrounding provinces.

The popularity of the Gardenia bakery range of products is now very well established. The tour for school children and teachers at the company's state of the art plant at Laguna is so popular that on some days, the number of students touring the plant reaches 3,500 per day.

Gardenia Philippines continues to receive recognition and accolades for its quality products and market successes. It has been awarded the ISO9001:2000 certification and the HACCP safety certification for another 3 years by Certification International. It has been awarded the Superbrands Award, the Consumers Union of the Philippines Award in addition to numerous other awards from independent organisations.

Australia
Bakers Maison (Australia) Pty Ltd ('Bakers Maison')

The Bakers Maison bakery specialises in the manufacture of quality French style par-baked breads as well as an extensive range of full butter pastries. The bakery is located in Sydney Australia.

The company's range of par-baked products includes variants of baguette, batards and rolls while the mixed pastries range includes various types of croissants, Danish, snails, muffins and lattice. The Bakers Maison bakery plant manufactures daily fresh products for distribution to cafes, restaurants, hotels, convenience stores and bakery shops within Sydney.

To cater to the increased demand for its products, Bakers Maison launched 2 new products in 2006 such as the Italian ciabatta and Turkish breads which are fast becoming popular in Australia. New flavours are also added to the company's existing bread range such as linseed and spinach. Bakers Maison manufactures both freshly baked bakery products as well as wrapped frozen rolls and sandwiches for its customers.

In 2006, Bakers Maison successfully supplied selected products to new café and sandwich chain customers. 20 new food distributors were added to its distribution network. Bakers Maison has become the preferred supplier in 2006 with NAFDA, an alliance of food distributors with about 50 members located throughout Australia. The company is also a major supplier of selected products to the Starbucks Coffee chain stores in Australia.

The company participated in the Fine Foods Show Exhibitions in Brisbane and Melbourne as well as in the Food and Hotel Asia 2006 Exhibition in Singapore. Major leads with new customers were established in these exhibitions.

Bakers Maison has achieved record sales in 2006 and this coupled with gains in efficiency have resulted in improved profitability for the company.

PRIMARY PRODUCTION

PRIMARY PRODUCTION

QAF Meats

QAF Meats is a fully integrated operation in Australia which is involved in stockfeed milling, breeding and farm operations, abattoir (slaughterhouse) operations, deboning, meat cutting as well as distribution. It is the largest producer of pigs and pork meat in Australia and the region. In 2006, QAF Meats produced and sold over 1,000,000 heads or about 69,000 MT of meat.

In Australia, QAF Meat remains the largest producer with a 20% market share. Its dominance of the market can be clearly seen when its next largest competitor has only a 7% market share. QAF Meats has also a dominant position in the export markets with market shares of 17% and 47% of total Australian pork exports to Singapore and Japan, respectively.

Breeding and farm operations are located in 9 company-owned sites spread out in separate locations in the states of New South Wales and Victoria. The sites have a total area of about 100 square kilometres. QAF Meats has also 57 contract growers who are independent farms which breed and grow livestock belonging to and on behalf of QAF Meats.

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

QAF Meats produces its own stockfeed for its herd's consumption through its company-owned stockfeed mills. It owns and operates one of the largest stockfeed mills in Australia, with a capacity of more than 450,000 MT per year. The main mill is situated in Corowa, NSW while a smaller facility is located in Balpool, NSW. The major raw materials for stockfeed are wheat grain, barley, triticale, canola, other grains and pulses and these are purchased directly from growers in the surrounding area which is a major grain producing region.

Slaughtering and deboning are operated out of QAF Meats' company-owned abattoir and deboning facility at Corowa. The abattoir is the largest abattoir facility in Australia and is situated on one site, with a capacity to slaughter 1 million heads per annum. The use of the wholly dedicated in-house slaughter facility also allows QAF Meats to achieve the best quality carcases and meat cuts, while at the same time ensuring the maintenance of the highest hygiene and sanitation standards as well as realising the lowest possible cost.

PRIMARY PRODUCTION

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

QAF Meats' strategy to reposition itself as a leading producer and distributor of fresh meat in the retail industry has borne fruit. It is now the single largest supplier of fresh meat to a supermarket chain and the products are supplied in vacuum packed cuts including case ready products. The entire boning room in Corowa is now dedicated to the production of chilled pork for the retail sector. In 2006, QAF Meats achieved further growth in its fresh product sales to the retail sector and was awarded the coveted Woolworths Meat Supplier of the Year award. This prestigious award recognises the excellence with which QAF Meats has supplied Woolworths in the past and provides a solid basis for future growth in this sector.

The company's moisture infused boneless and bone-in fresh meat products under its own brands of "High Country" and "Murray Valley Pork" continued to achieve successes. These products are sold to food service companies and retailers and has seen good growth in 2006.

Several initiatives were also made in 2006. QAF Meats purchased a 350 sow piggery in close proximity to the Huntly site in Victoria. The purchase and development of this site is to create a secondary source of terminal sire genetics in Victoria and which is isolated from the rest of the company's herd. The development of this site as a high health terminal sire nucleus herd in Victoria is an essential part of QAF Meats ongoing health improvement program.

To strengthen the company's ability to source the right kind of grain for its feedstock, QAF Meats established a land leasing programme with local farmers in 2006. The land lease strategy is directed at leasing arable farming land to establish a cropping program directed to delivering feed grains to QAF Meat's stockfeed mills at prices which are below historic averages. QAF Meats entered into a number of long-term leases with 2,000 hectares of land secured. A lease for an additional 3,000 hectares of land is in the final stages of negotiation and is expected to be completed during the first half of 2007. This will finalise stage one of the land lease programme and the target is to secure 5,000 hectares under lease eventually.

Diamond Valley Pork Pty Ltd ('Diamond Valley')

Diamond Valley is a joint-venture company which is 51% owned by the QAF Group. It specialises in the slaughter of sows and has a capacity of 250,000 heads per year. Located at Laverton, Melbourne, Diamond Valley provides slaughter facilities for QAF Meats as well as for other farms and wholesalers.

The company has boning lines with a capacity to process about 300 sows per day. It has also a facility to produce minced meat products for exports, especially to Japan.

The operating performance of Diamond Valley improved in 2006 as a result of increased throughput in the abattoir and boning room, as well as improved margins for both carcases and boned products. The company has continued to attract contract service business and is also involved in the buying of live animals and then slaughtering, boning and selling them as chilled carcases or other meat products. Diamond Valley has increased its exports to Singapore in addition to its sales in the domestic meat market.

Slaughter operations have increased by 20% over that of 2005 and the company is now at full capacity. The company has, at the end of 2006, embarked on a construction programme to increase its chiller capacity which is currently the 'bottleneck' in its process. With the additional chillers, capacity of the plant will increase to 500,000 heads per year and this will make Diamond Valley one of the leading abattoirs in the Victoria area.

TRADING & LOGISTICS

TRADING & LOGISTICS

Ben Foods (S) Pte Ltd ('Ben Foods')

Wholly-owned Ben Foods is a leading wholesale food distribution company in Singapore. It distributes a wide range of food and beverage products including meat, milk and dairy products, soups, pastry, confectionery, sauces, spreads, snack products, wines and juices. Ben Foods serves a diverse range of customers such as supermarkets, wholesalers, food manufacturers, fast food chains, bakeries, independent retail outlets, hotels, restaurants, flight kitchens and sea vessels in Singapore.

The company has also successfully developed its own proprietary brands such as Cowhead (milk and dairy products), Farmland (processed meat and foodstuff), Haton (seafood products) and Orchard Fresh (juices). In particular, Ben Foods' Cowhead products are widely distributed in Singapore as well as in the region - the Philippines, Vietnam, Cambodia, Myanmar and Macau. Cowhead products include fresh and full cream milk, UHT milk, condensed and evaporated milk, butter and cheddar cheese. Raw materials are sourced from renowned manufacturers in Australia (including the Group's subsidiary Challenge Australian Dairy Pty Ltd in Western Australia), New Zealand and South America.

In line with its objective to add value by expanding its proprietary brands, the company added additional variants to its Farmland Oregon Fresh Potato Chips and Cowhead milk and biscuit range. These new variants are the Wasabi and Seaweed Potato Chips as well as the Cowhead Strawberry milk and Cowhead Chocolate biscuit. Todate, these new products have been well received.

Several new labels of wines were launched in 2006. Dulong Wines from the renowned wine producing region of Bordeaux, France, were launched in 2006. Labels under the Dulong wines are Marquis D'Alban, Chateau Mezain, Veuve Alban Sparkling Wine and Lou Magret. Another brand launched is the Champagne de Venoge and this brand hails from the famous Champagne wine country in France. The labels of this brand are Cordon Bleu Millesime and Cordon Bleu Brut Select and this range are perfect as aperitifs which go well with starter dishes. For the supermarkets and on-premise outlets, the company launched the 3R range of products which are produced by the Pepper Tree winery of Australia.

Business rationalisation and effective cost reductions have resulted in increased profitability for Ben Foods in 2006.

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

NCS is a public cold store which is strategically located in Jurong Industrial Estate. It is less than 10 minutes drive from Jurong Port where ships berth for the loading and unloading of marine products. NCS provides for its customers multiple temperature rooms for the storage of cargo, ranging from dry to frozen. It is the largest public cold store in Singapore with a capacity for 14,000 pallets and it occupies a land area of over 27,000 square metres.

Besides storage, the company also provides integrated facilities as a total service for its customers such as container plug-in service, cargo clearance, delivery services as well as rental of office and processing rooms. The company enjoyed a full occupancy rate in 2006.

OTHERS

Oxdale Dairy Enterprise Pty Ltd ('Oxdale Dairy')

The Group's wholly owned subsidiary, Oxdale Dairy, operates 2 dairy producers in Cobram, Victoria, Australia. The 2 dairy producers have a total land area of more than 733 hectares of freehold land and have access to adequate water. The facilities are supported by a good complement of ancillary assets such as 2 rotary dairys (a 42 stand and a 50 stand), irrigation equipment, laneways, barns and electric fences. Todate, the total number of cattle (Freisian, Freisian Jersey Cross, Holstein and Brown Swiss) are about 2,000.

Oxdale Dairy's operations have a competitive advantage in that it can utilise the large areas of buffer pasture land belonging to QAF Meats to grow and pasture its dairy cattle population. This advantage allows Oxdale Dairy to increase its herd rapidly without additional large investments in land, water resources and feed lots. Cost of feed is also lower as Oxdale Dairy's cattle can also graze on QAF Meats' buffer pasture land.

The performance of Oxdale Dairy continues to be encouraging. Demand for milk by manufacturers continues to be high. While the existing drought condition in Australia has affected production to some extent, the long term outlook for Oxdale Dairy is still very positive and the company is working towards making itself one of the larger dairy producers in Australia.

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 (excluding subsidiaries which are themselves public listed companies) ("the Group") with reference to the Code of Corporate Governance 2005 ("Code 2005"). The Company has generally adhered to the principles and guidelines as set out in the Code 2005. In areas where the Company deviated from the Code 2005, the deviation and reasons for that are as explained below.

Principle 1 : Board's Conduct of its Affairs

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

Name	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of Meeting Held	No. of Meeting Attended	No. of Meeting Held	No. of Meeting Attended	No. of Meeting Held	No. of Meeting Attended	No. of Meeting Held	No. of Meeting Attended
Didi Dawis	5	5	NA	NA	1	1	1	1
Andree Halim	5	5	NA	NA	NA	NA	NA	NA
Tan Kong King	5	5	NA	NA	1	1	NA	NA
Phua Bah Lee	5	5	4	4	1	1	1	1
Tarn Teh Chuen	5	5	NA	NA	NA	NA	NA	NA
Derek Cheong Kheng Beng	5	5	NA	NA	NA	NA	NA	NA
Kelvin Chia Hoo Khun	5	3	4	3	NA	NA	1	–
Tan Hin Huat	5	5	4	4	NA	NA	NA	NA

The Articles of Association of the Company provide for the Board to convene meetings by video conferencing or telephonic-conferencing for any Director who is otherwise unable to attend the meetings in person.

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 for the Group
- 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)

All the existing Directors of the Company were appointed before the implementation of Code 2005. The Company did not provide formal letter to the Directors upon their appointment setting out the Director's duties and obligations. However, the Directors have been regularly updated and informed of the duties as a director under the Singapore laws and regulations and changes thereto.

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

In 2006, a global management meeting was held for the Group whereby the Directors were availed of detailed presentation by the relevant local management of the business and operation of each operating subsidiary within the Group.

Principle 2 : Board Composition and Balance

The Board comprises eight Directors of whom three are executive Directors and five are non-executive Directors. The non-executive Directors are Mr Didi Dawis (the Chairman of the Board), Mr Andree Halim (Vice-Chairman of the Board), Mr Kelvin Chia Hoo Khun (chairman of Audit Committee), Mr Phua Bah Lee (chairman of Nominating Committee) 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 Guideline 2.1 of the Code 2005. The Board also considers Mr Didi Dawis, a substantial shareholder of the Company who is deemed interested in approximately 10.19% of the issued shares of the Company, as independent for the purpose and intent of the Code 2005. As aside from his shareholdings, neither Mr Didi Dawis nor his immediate family members or associates have any business transactions or relationship whatsoever with the Company or its subsidiaries or its officers which could interfere with the exercise of his independent business judgement with a view to the best interests of the Company.

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

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

The non-executive Directors, under the leadership of the Chairman of the Board, provide feedback to the Management of their views on the performance of the Group for each financial year.

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 day-to-day management 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, who is assisted by the other executive Directors.

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

Principle 4 : Board Membership

The Nominating Committee comprises two non-executive independent Directors and one executive Director, namely Mr Didi Dawis, Mr Phua Bah Lee and Mr Tan Kong King. In 2006, Mr Phua Bah Lee has been elected by the Board as chairman of the Nominating Committee. Mr Phua is an independent non-executive Director and is not a substantial shareholder of the Company.

The Nominating Committee is empowered by the Board to decide on the re-appointment of members of the Board subject to retirement by rotation. Article 104 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 of 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.

Under its Terms of Reference as approved by the Board, 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 Company has not appointed any new director since the formation of the Nominating Committee. The Nominating Committee will establish a selection process should there be a need for the appointment of new directors in the future.

The Nominating Committee also reviews annually as to whether there is a change to the independence status previously accorded to the relevant Directors following the guidelines as set out in the Code 2005.

Principle 5 : Board Performance

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

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

Principle 6 : Access to Information

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

The Directors have separate and independent access to the Company Secretary. The Company Secretary attends all Board and Committee meetings and her responsibility includes ensuring that board procedures are followed and that applicable rules and regulations are complied with, and that minutes of meetings are properly and fairly recorded.

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 independent Directors, namely Mr Didi Dawis, Mr Phua Bah Lee and Mr Kelvin Chia Hoo Khun. In 2006, Mr Didi Dawis has been elected by the Board as the chairman of the Remuneration Committee.

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

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

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 includes a fixed as well as a variable component. The fixed component is the base salary and variable component is in the form of a variable bonus linked to the individual's or the relevant subsidiary's performance. Annual adjustments to the remuneration are made taking into account the performance of the Group and/or of the relevant subsidiary, the prevailing market pay, the seniority and level of responsibilities of the individual as well as his/her performance. Another element of the variable component for the key executives is the grant of share options under the QAF Limited Share Option Scheme 2000 ("Scheme 2000").

In addition to the individual performance and contribution of the executive Directors to the performance of the Group, the revenue trend or year-to year profit performance of the Group, the Remuneration Committee also takes into account similar policy and approach as outlined in the paragraph above when reviewing the remuneration of the executive Directors. Executive Directors do not receive directors' fees other than their remunerations as employees of the Company.

The Group Managing Director's remuneration is subject to the terms as provided in his service contract entered into with the Company.

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.

Non-executive directors are paid a basic fee and an additional fee for serving as the Chairman of the Board or chairman/members of the Audit Committee. Such fees are subject to approval by the shareholders of the Company as a lump sum payment at each AGM of the Company. The Company holds the view that the interests of maintaining the objectivity and independence of the non-executive Directors is best served by a cash-based fixed fees at a rate broadly in line with those that are adopted by a majority of other listed companies.

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

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

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

More information on the Scheme 2000 is hereafter provided in the Directors' Report and in the audited financial statements attached thereto.

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 2006 :

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

	Salary	Bonus	Other Benefits*	Total
$1,500,000 to below $1,750,000				
Tan Kong King	64%	34%	2%	100%
$250,000 to below $500,000				
Tarn Teh Chuen	75%	23%	2%	100%
Derek Cheong Kheng Beng	74%	23%	3%	100%

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

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

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

(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 below $500,000	5
Below $250,000	–

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 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 independent Directors, namely Mr Kelvin Chia Hoo Khun (the chairman of the Audit Committee), Mr Phua Bah Lee and Mr Tan Hin Huat. 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.

The Audit Committee performs the functions set out in the Companies Act and the Code 2005. 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 significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and the consolidated financial statements of the Group 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 auditor, conduct an annual review of the effectiveness of the Group's material internal controls
- To set up and review (as may be necessary) a whistle-blower procedure for the Group.

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 auditor, and has full discretion to invite any Director and executive officer to attend its meetings.

In the year 2006, the Group has an internal auditor who is a member of the Institute of Certified Public Accountants of Singapore and the Institute of Internal Auditors. His primary line of reporting is to the chairman of the Audit Committee. The Audit Committee reviews and approves the annual internal audit plan proposed by the internal auditor. The internal auditor, like the external auditors, report independently his findings and recommendations to the Audit Committee in each Audit Committee meeting.

Under its terms of reference, the Audit Committee is empowered to ensure that the internal audit function is adequately resourced.

The Audit Committee also meets with the external auditors at least once a year, without the presence of the Management.

In 2007, the Audit Committee has implemented a whistle-blowing framework for the Group where employees of the Group may raise concerns in confidence about possible financial improprieties in the subsidiaries or the Company which might have a materially adverse effect on the subsidiary or the Company.

Principle 13 : Internal Audit (cont'd)

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

The Board acknowledges its responsibility overall for ensuring that there is a sound system of internal control to safeguard the shareholders' investments and Company's assets, and is satisfied that there has been no significant breakdown or weaknesses in the material aspect of the internal controls for the Group. The Board does not assume responsibility in overseeing the system of internal controls in subsidiaries or associates which are public-listed and which have their own set of board and audit committee members.

Principle 14 : Communication with Shareholders

Principle 15 : Greater Participation by Shareholders

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

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

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 a shareholder to appoint one or two proxies to attend and vote on his/her behalf.

Dealings in Securities

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

Supplementary Information
required by the Listing Manual

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

Siew Teck Woh, aged 65, was made the chief executive officer of Gardenia Foods (S) Pte Ltd in 1998, the Gardenia Bakery operation of the QAF Group in Singapore. Dr Siew spent a large part of his early career in the Primary Production Department ("PPD" and now called the Agri-Food & Veterinary Authority) of the Singapore Government including being the Director of the PPD for 9 years. During his tenure with PPD, Dr Siew was involved in the strategic formulation and implementation of various agri-business and livestock development programmes in Singapore. After leaving the PPD, Dr Siew worked with the KMP Pte Ltd group of companies for about 13 years. He was in charge and was instrumental in setting up an integrated chain of livestock activities for the KMP Group. Dr Siew was a Columbo Plan Scholar and graduated with a Bachelor of Veterinary Science degree from the University of Queensland, Australia. He was awarded an Honorary Doctorate in Veterinary Science by the University of Queensland in 1994.

Paul Pattison, aged 54, 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 meat production business carried out by the QAF Meats Group in Australia as well as the dairy farming businesses under Oxdale Dairy Enterprise. Mr Pattison has been with the QAF Meats Group for over 33 years. Prior to him assuming the position as chief executive officer of the QAF Meats Group, he was in various senior management roles including smallgoods production and meat production. He has played a major role in transforming the QAF Meats Group from a small producer of livestock into the largest fully integrated meat producer in Australia and one of the largest in the world. He graduated with a Diploma of Agricultural Science from Dookie Agricultural College, Australia.

Yap Kim Shin, aged 55, 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 54, 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 57, 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 operation of the QAF Group. Mr Lee has close to 31 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).

Wen You Cang, aged 54, is the chief executive officer of Shaanxi Hengxing Fruit Juice Co Ltd ("Shaanxi Hengxing"), a subsidiary in China in which the Group has an equity interest of 51%. He is the founder of Shaanxi Hengxing which started business operation in 1997 and, under his leadership, Shaanxi Hengxing has grown to become one of the largest producers of apple juice concentrate in China. With his years of business experience operating in China, Mr Wen has acquired invaluable knowledge and insight in the apple juice concentrate industry and has built up a good network of business support and contacts.

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

Peter Giddy, aged 45, is the chief executive officer of Challenge Australian Dairy Pty Ltd ("CAD"), a company in Australia of which the QAF Group has a 51% equity interest. Mr Giddy oversees the Western Australian operations of CAD which includes trading of bulk milk as well as manufacturing, distribution and marketing of processed dairy products in both the domestic and export markets. Prior to his appointment in CAD, Mr Giddy has held various senior executive positions in the Australian food industry including the dairy, processed meat and cereals. Mr Giddy holds an Honors degree in Science from the University of Melbourne as well as post graduate degree in Business Management.

Derrick Lum Weng Piu, aged 45, 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 21 years of experience in the area of accounting and finance. Prior to joining QAF, he was the regional controller for a multi-national and a Singapore-listed group. Mr Lum is a certified public accountant of the Institute of Certified Public Accountants of Singapore as well as a chartered financial analyst of the CFA Institute. He also holds a Master of Business Administration from the United Kingdom.

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

1. Disease Outbreak and Farm Contamination

The Primary Production Division of the Group consists of the QAF Meats Group ("QAF Meats") and China Food Industries Limited Group of China. QAF Meats is an integrated producer of meat, which operates 9 company-owned farms and 57 Contract Grower sites spread out across the Australian states of Victoria and New South Wales. QAF Meats has more than 60,000 breeder pigs and a total population of more than 500,000 pigs. In addition, the Group operates 2 dairy farms at Cobram, Victoria, Australia with more than 1,900 heads of dairy cows.

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

Although Australia is geographically isolated and has strict quarantine laws, there is no guarantee that the Group's livestock will not be affected by disease epidemics. QAF Meats has taken preventive measures of enforcing the highest standards of quarantine and by geographically spreading out its farms to prevent cross contamination. The 9 QAF Meats-owned farms and the 57 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.

Rule 1207(4)(d) : Information relating to risks (cont'd)

2. Regulatory Sanctions

(a) Meat Industry

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

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

(b) Environment

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

3. Cyclical, Seasonal and Varying Consumer Demand

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

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

4. Competition

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

Rule 1207(4)(d) : Information relating to risks (cont'd)

4. Competition (cont'd)

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

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

5. Employee Turnover/Union Risks

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

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

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

Rule 1207(4)(d) : Information relating to risks (cont'd)

6. Fluctuations in Raw Material Prices

QAF Meats is involved in livestock farming and the meat industries. Shaanxi Hengxing Fruit Juice Co. Ltd. ("Shaanxi Hengxing") is involved in the production of apple juice concentrates.

The prices of raw material costs affect the livestock farming, meat and apple juice concentrate industries. These industries are subject to swings in production costs determined largely by grain and apple prices respectively. Grain and apple prices fluctuate depending on the farming season's weather, quality and yield of crop and such prices will in turn affect the costs of production. Grain prices affect the cost of animal feed and ultimately production cost per animal. Apple prices will affect the production cost of apple juice concentrates. In particular, QAF Meats and Shaanxi Hengxing purchase the bulk of its grain and apple raw materials, respectively, at the harvest season. Any price fluctuations of raw agriculture produce at that point will affect their respective production costs which QAF Meats and Shaanxi Hengxing may not be able to offset commensurately by higher selling prices of their products. The fluctuations of raw material prices will have an impact on QAF Meats and Shaanxi Hengxing's 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 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 airliners. Distribution costs will increase significantly in the event of the escalation of crude oil prices.

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

8. Financial Risks

(a) Credit Risk

In the normal course of business, the Group sales do involve the extension of credit to customers such as supermarkets, convenience stores, petroleum companies, wholesalers, retailers and food service and catering operators. Shaanxi Hengxing also exports its products to customers in the United States, Canada, the European Union, Russia and Australia on credit terms. However, there are no significant concentrations of credit risk and Shaanxi Hengxing uses some export insurance to mitigate export credit risk.

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

Rule 1207(4)(d) : Information relating to risks (cont'd)

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

(b) **Liquidity risk**

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

(c) **Foreign currency risk**

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

In addition, some companies in the Group such as QAF Meats, Shaanxi Hengxing and CAD export their products which are denominated in United States Dollars or other currencies. The fluctuations of these currencies do have an impact on the profitability of these companies.

(d) **Interest rate risk**

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

(e) **Share Price Fluctuation Risks**

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

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

Rule 907 : Interested Person Transactions for financial year 2006

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $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 $100,000)
–	Nil	Nil

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

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 74.9% of the shares of the Company (see page 139 of the Annual Report), the Company confirms that at least 10% of its listed shares are held by the public.

Rule 1207(6) - Non Audit Services of Auditors

The non-audit fees charged by auditors, Ernst & Young, to the Group in FY2006 amounted to approximately $888,000, all of which was incurred by China Food Industries Limited, a listed subsidiary of the Company. 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.

Contents

Report of the Directors

The directors have pleasure in presenting their report together with the audited financial statements of QAF Limited (the "Company") and its subsidiary companies (the "Group") and the balance sheets of the Company and the Group for the financial year ended 31 December 2006.

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	

According to the register kept by the Company in accordance with Section 164 of the Singapore Companies Act, Cap. 50, particulars of interests of directors of the Company who held office at the end of the financial year in the shares, share options and warrants of the Company or its related corporations are as follows :

	Direct interest		Deemed interest	
Name of director	**At beginning of the year**	**At end of the year**	**At beginning of the year**	**At end of the year**
Number of shares in QAF Limited				
Didi Dawis	3,437,000	3,437,000	42,383,712	42,383,712
Phua Bah Lee	–	–	25,000	25,000
Tan Kong King	1,375,000	1,375,000	–	–
Andree Halim	245,132,940	10,558,000	–	254,830,940
Tarn Teh Chuen	287,500	287,500	–	–
Number of QAF Limited Share Options to subscribe for shares in the Company				
Tan Kong King	1,800,000	2,300,000	–	–
Tarn Teh Chuen	980,000	1,230,000	–	–
Derek Cheong Kheng Beng	400,000	600,000	–	–
Number of Warrants 2009 to subscribe for shares in QAF Limited				
Andree Halim	57,150,538	47,452,538	–	–
Tan Kong King	675,000	675,000	–	–
Tarn Teh Chuen	57,500	57,500	–	–

Directors of the Company (cont'd)

Subsequent to year end, Mr Andree Halim has purchased further shares in the Company and as at 21 January 2007, his direct interest in the shares of QAF Limited was increased to 11,359,000 shares. Except as disclosed herein, there was no change in any of the abovementioned interests of the directors between the end of the financial year and 21 January 2007.

Save as disclosed in this Report and save that Mr Andree Halim is deemed interested, by virtue of Section 7(4) of the Singapore Companies Act, Cap. 50, in the shares held by the Company in its subsidiary or associated companies, no director who held office at the end of the financial year had an interest in any shares or debentures or rights or options over the shares in the related corporations of the Company.

Since the end of the previous financial year, no director of the Company has received or has become entitled to receive benefits under contracts (other than a benefit included in the aggregate amount on emoluments received or due and receivable by the directors as shown in Note 6 to the financial statements attached or the fixed salary of a full time employee of the Company) required to be disclosed by Section 201(8) of the Singapore Companies Act, Cap 50 (the "Act").

Save for the share option scheme as detailed below, neither at the end of the financial year, nor at any time during the year, did there subsist any arrangements, to which the Company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Options to subscribe for ordinary shares

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

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

Each option shall entitle the holder of the option to subscribe for an ordinary share in the Company at the prescribed exercise price. 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 offering date 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 $0.40 per share being the par value of an ordinary share in the Company immediately before the abolishment of par value by the Companies (Amendment) Act 2005.

An option granted is valid for 10 years (unless otherwise terminated or lapsed pursuant to the rules as stipulated in the 2000 Scheme) and is exercisable, for an option granted without discount to the Market Price, after a vesting period of 1 year and for an option granted at a discount to the Market Price, after a vesting period of 2 years.

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

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

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

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

Name of participant	Options granted during financial year under review	Aggregate options granted since commencement of the 2000 Scheme to end of financial year under review	Aggregate options exercised since commencement of the 2000 Scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Tan Kong King	500,000	2,600,000	300,000	2,300,000
Tarn Teh Chuen	250,000	1,460,000	230,000	1,230,000
Derek Cheong Kheng Beng	200,000	600,000	Nil	600,000

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

(b) During the financial year, 160,000 ordinary shares of the Company were issued pursuant to the exercise of options by employees of the Group. Unissued ordinary shares under options as at 31 December 2006 comprise :

QAF Limited Share Option Scheme 2000	For ordinary shares in the Company	Exercise price per share	Exercise period		
Year 2000	1,860,000	$0.630	26 May 2001	to	25 May 2010
Year 2001	838,000	$0.430	20 April 2002	to	19 April 2011
Year 2002	2,432,000	$0.555	6 April 2003	to	5 April 2012
Year 2004	3,430,000	$0.523	14 May 2005	to	13 May 2014
Year 2005	3,330,000	$0.513	18 August 2006	to	17 August 2015
Year 2006	4,080,000	$0.565	19 May 2007	to	18 May 2016
	15,970,000				

None of the options was granted at a discount to the market price.

The holders of the options under Scheme 2000 have no right to participate by virtue of these options in any share issue of any other company in the Group.

Warrants 2009 to subscribe for ordinary shares

(a) Pursuant to a rights issue carried out in October 2004 and completed on 8 November 2004, 87,952,593 Rights Shares were issued at an issue price of $0.50 for each Rights Share on the basis of 1 Rights Share with 1 warrant ("Warrants 2009") for every 4 existing ordinary shares in the Company, each warrant carrying the right to subscribe for 1 ordinary share in the capital of the Company at the exercise price of $0.50 for each new share. A total of 87,952,593 Warrants 2009 were issued as a result of the rights issue on 17 November 2004. Warrants 2009 are valid for exercise within a period of 5 years commencing on and including the date of issue of the Warrants 2009. Warrants 2009 are listed and quoted on the SGX-ST.

(b) During the financial year, 9,710,000 ordinary shares in the Company were issued pursuant to the exercise by warrant holders. As at 31 December 2006, there were a total of 78,238,843 Warrants 2009 outstanding.

Audit committee

The audit committee performed the functions specified in the 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
30 March 2007

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) subject to the following matters, the accompanying balance sheets, consolidated profit and loss account, consolidated statement of changes in equity, and consolidated cash flow statement together with notes thereto are drawn up 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 2006 and of the results of the business, changes in equity and cash flows of the Group for the year ended on that date:

   (a) the inclusion and consolidation of the financial statements of China Food Industries Limited and its subsidiaries for the year ended 31 December 2006 ("CFI Financial Statements") into the consolidated financial statements of the Company for the year ended 31 December 2006 and with the CFI Financial Statements subject to such disclaimer of audit opinion, qualifications and limitations more particularly disclosed in Note 1(b) on pages 61 to 63 to the financial statements accompanying herein, and

   (b) the appropriateness of the results of Zhongguo Jilong Limited, an associated company, equity accounted by the Group, the impairment charges and carrying value of the investment thereto due to reasons as stated in Note 19 on pages 95 and 96, and Note 42 on page 133 to the accompanying financial statements.

(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
30 March 2007

Independent Auditors' Report

To the Members of QAF Limited

We were engaged to audit the accompanying financial statements of QAF Limited (the "Company") and its subsidiary companies (the "Group") set out on pages 53 to 133, which comprise the balance sheets of the Group and the Company as at 31 December 2006, the statements of changes in equity, the profit and loss account and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Except as discussed in the following paragraphs, we conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

Investment in an Associated Company - Zhongguo Jilong Limited ("Jilong")

As stated in Note 19 to the accompanying financial statements, the Group's profit and loss account for the financial year ended 31 December 2006 includes its share of Jilong's losses amounting to $685,000.

Jilong has made announcements pertaining to the following matters:

(i) its external auditors have raised certain likely irregularities with respect to the financial matters of Jilong group to the attention of Jilong's Audit Committee and have reported these irregularities to the Minister of Finance; and
(ii) a bank has filed a winding up petition as Jilong did not make payment of the sum demanded within the stipulated time.

In view of these reasons, the Group has recognised an impairment charge of $6,437,000 during the financial year to reduce the carrying value of the investment in Jilong to $12,151,000 as at 31 December 2006 and the Company has recognised an allowance for doubtful debts of $8,700,000 during the financial year to reduce the advances due from a subsidiary company to $13,370,000 in connection with the investment in Jilong as at 31 December 2006.

The audited financial statements of Jilong for the financial year ended 31 December 2006 are not available as at the date of this report, and therefore any effect of the above matters on the financial position of Jilong cannot be ascertained at this juncture.

Because of the matters stated above, we are unable to assess the appropriateness of the results of Jilong equity accounted by the Group and the impairment charges recorded for the year ended 31 December 2006, and the carrying value and the recoverability of the Group's investment in Jilong as at 31 December 2006.

Auditors' Opinion on the Financial Statements of China Food Industries Limited for the Financial Year Ended 31 December 2006

The financial statements of the Group for the year ended 31 December 2006 includes the financial statements of its public-listed subsidiary company, China Food Industries Limited ("CFI").

As stated in Note 1(b) to the accompanying financial statements, the auditors of CFI were not able to and did not express an opinion on the financial statements of CFI and have highlighted the following significant matters in their audit report on the financial statements of CFI and its subsidiary companies (collectively known as "CFI Group") for the financial year ended 31 December 2006:

PRC Subsidiaries

The financial statements of CFI for the year ended 31 December 2006 include the results of its subsidiary companies in the People's Republic of China ("PRC Subsidiaries") based on their unaudited management accounts for the year ended 31 December 2006. The unaudited management accounts may not be in form and content reliable and appropriate for the purpose of the preparation of CFI's consolidated financial statements for the year ended 31 December 2006 as:

(i) The investigation by the Commercial Affairs Department ("CAD") is ongoing in respect of the complaint lodged by CFI regarding various matters involving suspected fraudulent conduct. The outcome of the investigation might uncover other information which might require adjustments to be made to financial statements for current and previous financial periods;

(ii) CFI recorded certain restatements to the 2005 consolidated financial statements by recognising allowances for inventory and doubtful debts amounting to $5,747,000 and $7,437,000 respectively. However, the auditors were unable to assess the appropriateness of these restatements or the financial periods in which these amounts should have been recorded; and

(iii) Because of the pervasive nature of the matters described above and other matters described in Note 1(b) to the financial statements, the ownership, valuation and existence of assets and liabilities, and the going concern of the PRC Subsidiaries cannot be ascertained reliably.

Valuation of inventories

The inventories of a subsidiary company of CFI are stated at net realisable value amounting to $1,920,000 as at 31 December 2006 based on the best estimate of the directors of the relevant subsidiary company. Based on the limited information available to the auditors on the subsequent sales, the auditors were unable to assess the appropriateness of the carrying value of the inventories of the subsidiary company.

Going Concern Assumption

There are material uncertainties which may cast doubt on the ability of CFI Group to continue as a going concern as:

(i) CFI Group incurred a loss of $18,902,000 for the financial year ended 31 December 2006;
(ii) The PRC Subsidiaries were put into the process of voluntary liquidation in view of the legal claims; and
(iii) CFI Group does not have any other significant source of revenue.

The ability of CFI Group to continue as a going concern and to meet its liabilities as and when they fall due is dependent, inter alia, on the continuing support of CFI Group's creditors, including a bank loan for the sum of $7,282,000 which is supported by a corporate guarantee from QAF Limited, continuing to be extended to CFI Group and the ability of CFI to secure new businesses and/or new investors.

If CFI Group is unable to continue in operational existence, it may be unable to discharge its liabilities in the normal course of business, and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from amounts at which they are currently recorded in the balance sheet. In addition, CFI Group may need to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to CFI's financial statements.

Advances Due From a Subsidiary Company

As stated in Note 18 to the accompanying financial statements, the Company has recognised an allowance for doubtful debts of $23,500,000 during the financial year to reduce the advances due from a subsidiary company to $3,566,000 in connection with the investment in CFI.

In view of the matters stated above on CFI, we are unable to assess the appropriateness of the impairment charge recognised by the Company, and the carrying value and the recoverability of the remaining balance of $3,566,000 in the balance sheet of the Company as at 31 December 2006.

Audit Opinion

Because of the limited audit evidence available to us and the significance of the matters discussed above, we are not in a position to and, accordingly, do not express an opinion on whether 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 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 2006 and the results, changes in equity and cash flows of the Group for the year ended on that date.

In our opinion, because of the significance of the matters relating to CFI discussed in the preceding paragraphs, except for the accounting records relating to the consolidated financial statements of CFI, the accounting and other records required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
Certified Public Accountants

Singapore
30 March 2007

Consolidated Profit and Loss Account

for the year ended 31 December 2006
(In Singapore dollars)

	Note	2006 $'000	2005 $'000 (Restated)
Revenue	3	992,047	885,865
Costs and expenses			
Costs of materials		598,860	549,145
Staff costs	4	157,879	152,435
Amortisation and depreciation	5	35,065	32,443
Repairs and maintenance		22,675	22,555
Distribution and transportation expenses		35,176	16,992
Other operating expenses		76,875	71,130
Total costs and expenses		926,530	844,700
Profit from operating activities	6	65,517	41,165
Finance costs	7	(19,793)	(13,807)
Exceptional items	8	(19,687)	(11,170)
Share of profits of associated and joint venture companies		2,992	1,476
Profit before taxation		29,029	17,664
Taxation	9	(9,528)	(6,290)
Profit after taxation		19,501	11,374
Attributable to :			
Shareholders of the Company		21,466	15,450
Minority interests		(1,965)	(4,076)
		19,501	11,374
Earnings per ordinary share :	10		
- Basic		4.8 cents	3.5 cents
- Diluted		4.8 cents	3.5 cents

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

Balance Sheets

as at 31 December 2006
(In Singapore dollars)

	Note	Group 2006 $'000	Group 2005 $'000 (Restated)	Company 2006 $'000	Company 2005 $'000
ASSETS					
Current assets					
Biological assets	11	65,633	66,739	–	–
Inventories	12	179,237	146,310	–	–
Trade receivables	13	127,146	111,428	–	–
Other receivables	14	41,371	40,452	174,243	167,028
Tax recoverable		554	216	–	–
Short-term investments	15	153	–	–	–
Cash and deposits	16	61,110	84,813	13,596	19,139
		475,204	449,958	187,839	186,167
Non-current assets					
Property, plant and equipment	17	374,013	395,977	2,779	2,771
Subsidiary companies	18	–	–	113,040	115,740
Advances to subsidiary companies	18	–	–	65,910	102,096
Associated companies	19	57,159	62,372	–	–
Advances to associated companies	19	2,101	2,102	–	–
Joint venture company	20	4,045	3,490	–	–
Advances to joint venture company	20	552	622	–	–
Pension assets	21	1,562	1,260	–	–
Long-term investments	22	9,667	20,018	–	998
Intangibles	23	1,161	1,302	3,823	4,750
Non-current biological assets	11	5,140	3,369	–	–
Deferred tax assets	28	2,404	2,535	–	–
		457,804	493,047	185,552	226,355
Total assets		933,008	943,005	373,391	412,522

Balance Sheets

as at 31 December 2006
(In Singapore dollars)

	Note	Group 2006 $'000	Group 2005 $'000 (Restated)	Company 2006 $'000	Company 2005 $'000
LIABILITIES					
Current liabilities					
Trade payables	24	70,756	101,504	19	11
Other payables	25	66,610	53,687	2,918	8,927
Short-term borrowings	26	257,267	226,425	8,422	41,041
Long-term loans and finance leases - current portion	27	46,169	31,636	29,198	–
Provision for taxation		4,801	4,927	904	899
		445,603	418,179	41,461	50,878
Non-current liabilities					
Other payables	25	10,430	9,745	–	–
Long-term loans and finance leases	27	86,282	133,648	70,396	96,934
Deferred tax liabilities	28	8,051	5,547	408	324
		104,763	148,940	70,804	97,258
Total liabilities		550,366	567,119	112,265	148,136
Net assets		382,642	375,886	261,126	264,386
CAPITAL AND RESERVES					
Share capital	29	194,463	175,915	194,463	175,915
Reserves	30	146,322	147,865	66,663	88,471
Interest of shareholders of the Company		340,785	323,780	261,126	264,386
Minority interests		41,857	52,106	–	–
		382,642	375,886	261,126	264,386

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 2006
(In Singapore dollars)

	Attributable to shareholders of the Company								
	Share capital $'000	Share premium $'000	Fair value/ revaluation reserve $'000	Capital reserve $'000	Revenue reserve $'000	Foreign currency translation reserve $'000	Total $'000	Minority interests $'000	Total equity $'000
Balance at 1 January 2006									
- as previously reported	175,915	13,620	2,138	17,025	116,704	1,405	326,807	56,607	383,414
- effect of prior year adjustments (Note 1(b))	–	–	–	–	(7,251)	–	(7,251)	(5,933)	(13,184)
- effect of changes in accounting policies									
- FRS 12 (Note 2.2)	–	–	–	–	3,239	103	3,342	1,432	4,774
- FRS 19 (Note 2.2)	–	–	–	–	919	(37)	882	–	882
- as restated	175,915	13,620	2,138	17,025	113,611	1,471	323,780	52,106	375,886
Transfer between reserves	–	–	(49)	417	(368)	–	–	–	–
Exchange differences arising on consolidation	–	–	–	–	–	(3,348)	(3,348)	(1,628)	(4,976)
Fair value adjustments on financial instruments	–	–	264	–	–	–	264	79	343
Actuarial gain on defined benefit plans, net of tax	–	–	–	–	215	–	215	–	215
Expenses in relation to rights issue granted in prior years	–	(3)	–	–	–	–	(3)	–	(3)
Net profit/(loss) not recognised in the profit and loss account	–	(3)	215	417	(153)	(3,348)	(2,872)	(1,549)	(4,421)
Net profit/(loss) for the financial year	–	–	–	–	21,466	–	21,466	(1,965)	19,501
Total recognised income and expenses for the year	–	(3)	215	417	21,313	(3,348)	18,594	(3,514)	15,080
Share options granted to employees and directors	–	–	–	675	–	–	675	–	675
Transfer to share capital	13,617	(13,617)	–	–	–	–	–	–	–
Reclassification of advances from minority shareholders to other payables	–	–	–	–	–	–	–	(1,586)	(1,586)
Issuance of ordinary shares (Note 29)	4,931	–	–	–	–	–	4,931	–	4,931
Dividends (Note 31)	–	–	–	–	(7,195)	–	(7,195)	(5,149)	(12,344)
Balance at 31 December 2006	194,463	–	2,353	18,117	127,729	(1,877)	340,785	41,857	382,642

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 2006
(In Singapore dollars)

	Attributable to shareholders of the Company								
	Share capital $'000	Share premium $'000	Fair value/ revaluation reserve $'000	Capital reserve $'000	Revenue reserve $'000	Foreign currency translation reserve $'000	Total $'000	Minority interests $'000	Total equity $'000
Balance at 1 January 2005									
- as previously reported	175,905	13,619	999	16,565	97,278	2,645	307,011	25,981	332,992
- effect of changes in accounting policies									
- FRS 12 (Note 2.2)	–	–	–	–	4,447	–	4,447	1,906	6,353
- FRS 19 (Note 2.2)	–	–	–	–	221	–	221	–	221
- as restated	175,905	13,619	999	16,565	101,946	2,645	311,679	27,887	339,566
Transfer between reserves	–	–	(49)	62	(13)	–	–	–	–
Exchange differences arising on consolidation	–	–	–	–	–	(1,137)	(1,137)	305	(832)
Reversal of impairment loss upon reclassification to investments in associated companies	–	–	–	–	2,566	–	2,566	–	2,566
Fair value adjustments on financial instruments	–	–	1,188	–	–	–	1,188	(47)	1,141
Actuarial gain on defined benefit plans, net of tax	–	–	–	–	698	(37)	661	–	661
Net profit/(loss) not recognised in the profit and loss account	–	–	1,139	62	3,251	(1,174)	3,278	258	3,536
Net profit/(loss) for the financial year	–	–	–	–	15,450	–	15,450	(4,076)	11,374
Total recognised income and expenses for the year	–	–	1,139	62	18,701	(1,174)	18,728	(3,818)	14,910
Share options granted to employees and directors	–	–	–	398	–	–	398	–	398
Acquisition of shares in subsidiary companies	–	–	–	–	–	–	–	33,134	33,134
Issuance of ordinary shares (Note 29)	10	1	–	–	–	–	11	–	11
Dividends (Note 31)	–	–	–	–	(7,036)	–	(7,036)	(5,097)	(12,133)
Balance at 31 December 2005	175,915	13,620	2,138	17,025	113,611	1,471	323,780	52,106	375,886

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2006
(In Singapore dollars)

	2006 $'000	2005 $'000 (Restated)
Cash flows from operating activities :		
Profit before taxation	29,029	17,664
Adjustments for :		
Depreciation of property, plant and equipment	34,927	32,305
Gain on disposal of property, plant and equipment	(3,440)	(393)
Share of profits of associated and joint venture companies	(2,992)	(1,476)
Gain on disposal of long-term investments	(2,371)	(49)
Fair value changes on derivative financial instruments	1,372	–
Amortisation of intangibles	138	138
Interest expense	19,793	13,807
Dividend and interest income	(2,780)	(2,258)
Impairment on property, plant and equipment	11,635	879
Net gain on disposal/liquidation of subsidiary companies	(384)	(486)
Share options granted to employees and directors	675	398
Impairment on long-term investments	2,070	–
Impairment on investment in associated company	6,437	–
Negative goodwill on acquisition of an associated company	–	(6,109)
Impairment on goodwill on consolidation of a subsidiary company	–	4,446
Loss on disposal of an associated company	–	135
Exchange differences	(9,710)	(2,045)
Operating profit before working capital changes	84,399	56,956
Increase in receivables	(18,418)	(13,333)
Increase in inventories and biological assets	(33,617)	(20,061)
Decrease in payables	(22,210)	(2,673)
Cash generated from operations	10,154	20,889
Interest paid	(19,083)	(13,237)
Interest received	2,568	1,903
Income tax paid	(6,461)	(4,175)
Net cash (used in)/provided by operating activities	(12,822)	5,380
Cash flows from investing activities :		
Purchase of property, plant and equipment	(35,301)	(31,658)
Purchase of short-term investments	(157)	–
Proceeds from disposal of property, plant and equipment	5,161	3,648
Disposal/(purchase) of long-term investments	10,930	(97)
Purchase of shares in associated companies	(811)	(21,169)
Dividends received from investments	212	355
Decrease/(increase) in advances to associated and joint venture companies	71	(95)
Net proceeds from disposal/liquidation of subsidiary companies (Note A)	570	323
Dividends received from associated companies	994	350
Net proceeds from divestment of an associated company	–	17,537
Acquisition of subsidiary companies, net of cash acquired (Note B)	–	(13,145)
Net cash used in investing activities	(18,331)	(43,951)

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2006
(In Singapore dollars)

	2006 $'000	2005 $'000 (Restated)
Cash flows from financing activities :		
Dividends paid during the year	(7,195)	(7,036)
Dividends paid to external shareholders of subsidiary companies	(712)	(5,097)
Proceeds from short-term borrowings	48,177	33,106
(Repayment of)/proceeds from long-term borrowings	(31,263)	61,790
Proceeds from issuance of share capital	4,931	11
Repayment of loans to ex-shareholders of a subsidiary company (Note C)	–	(10,258)
Net cash provided by financing activities	13,938	72,516
Net (decrease)/increase in cash and cash equivalents	(17,215)	33,945
Cash and cash equivalents at beginning of year (Note 32)	69,958	36,230
Effect of exchange rate changes on cash and cash equivalents	(502)	(217)
Cash and cash equivalents at end of year (Note 32)	52,241	69,958

	2006 $'000	2005 $'000
Note A - Analysis of disposal/liquidation of subsidiary companies		
Property, plant and equipment	617	361
Inventories	25	–
Receivables	495	34
Cash and cash equivalents	945	723
Payables	(951)	(69)
Foreign currency translation reserve	–	(489)
Net assets disposed/liquidated	1,131	560
Gain on disposal/liquidation	384	486
Consideration	1,515	1,046
Cash and cash equivalents disposed/liquidated	(945)	(723)
Net cash inflow on disposal/liquidation of subsidiary companies	570	323

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2006
(In Singapore dollars)

	2006 $'000	2005 $'000
Note B - Analysis of acquisition of subsidiary companies		
Property, plant and equipment	–	125,703
Long-term investments	–	1,600
Inventories and biological assets	–	61,644
Receivables	–	50,144
Payables	–	(77,772)
Borrowings	–	(117,459)
Provision for taxation and deferred taxation	–	(2,027)
Cash and cash equivalents	–	27,266
Minority share of net assets of subsidiary companies	–	(33,134)
Net assets acquired	–	35,965
Goodwill arising on acquisition	–	4,446
Cash paid	–	40,411
Cash and cash equivalents acquired	–	(27,266)
Net cash outflow on acquisition of subsidiary companies	–	13,145

Note C - Repayment of loans to ex-shareholders of a subsidiary company

The loan was advanced to a subsidiary company, Shaanxi Hengxing Fruit Juice Co Ltd ("Shaanxi Hengxing"), in accordance with the terms of Sales and Purchase Agreement entered into by the Company. Shaanxi Hengxing was required to repay the shareholders' loans provided by the then 51% outgoing shareholders (approximately the same amount) upon the termination of the interests of the said outgoing shareholders in Shaanxi Hengxing.

Notes to the Financial Statements

- 31 December 2006
(In Singapore dollars)

1. General

(a) Corporate information

QAF Limited (the "Company") is a public limited liability company incorporated and domiciled 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 of food and beverages; production, processing and marketing of meat; feedmilling and sale of animal feeds and related ingredients; production, processing and sale of dairy products; manufacture and sale of fruit juice-concentrate and investment holding.

(b) China Food Industries Limited ("CFI") financial statements as attached to its annual report issued for financial year ended 31 December 2006 ("CFI Financial Statements")

(1) CFI is a public-listed subsidiary of the Company in which the Company has an interest in 55% of its share capital. The auditors of CFI ("CFI Auditors") in their report issued on 29 March 2007 stated that they were not in a position to and do not express an opinion on whether the financial statements (as summarised in Note 39 to the accompanying financial statements herein) of CFI and its subsidiaries ("CFI Group"), were properly drawn up in accordance with the Companies Act and the Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs and results for the year ended 31 December 2006.

The CFI Auditors provided, inter-alia, the following reasons giving rise to the aforesaid audit opinion:-

(i) PRC Subsidiaries

The financial statements of the CFI Group include the unaudited management accounts of its subsidiaries in the People's Republic of China (collectively known as "PRC Subsidiaries").

Note 1(b) to the CFI Financial Statements describes the significant events relating to the investigation of suspected fraudulent conduct relating to the PRC Subsidiaries and its subsequent developments.

The investigation by the Commercial Affairs Department ("CAD") in respect of the complaint lodged by CFI regarding the various matters is ongoing. The outcome of the investigation might uncover other information which might require adjustments to be made to the financial statements for the current and previous financial periods.

Because of the pervasive nature of the matters referred to above, the ownership, valuation and existence of the assets and liabilities, and the going concern of the PRC Subsidiaries cannot be ascertained reliably.

CFI Group has recorded certain restatements to the 2005 consolidated financial statements by recognising allowances for inventory and doubtful debts amounting to $5,747,000 and $7,437,000 respectively. However, CFI Auditors are unable to assess the appropriateness of these restatements or the financial periods in which these amounts should have been made.

1. General (cont'd)

(b) China Food Industries Limited ("CFI") financial statements as attached to its annual report issued for financial year ended 31 December 2006 ("CFI Financial Statements") (cont'd)

(i) PRC Subsidiaries (cont'd)

The CFI Auditors further expressed the opinion that, in view of the foregoing matters, the unaudited management accounts of the PRC Subsidiaries may not be in the form and content reliable and appropriate for the purpose of the preparation of the CFI Financial Statements.

(ii) Valuation of inventories

The inventories of a subsidiary company of CFI are stated at net realisable value amounting to $1,920,000 as at 31 December 2006 based on the best estimate of the directors of the relevant subsidiary company. Based on the limited information available to CFI Auditors on the subsequent sales, the appropriateness of the carrying value of the inventories of the subsidiary company cannot be ascertained reliably.

(iii) Going concern assumption

There are material uncertainties which may cast doubt on the ability of CFI Group to continue as a going concern as:

(i) CFI Group incurred a loss of $18,902,000 for the financial year ended 31 December 2006;
(ii) The PRC Subsidiaries were put into the process of voluntary liquidation in view of the legal claims; and
(iii) CFI Group does not have any other significant source of revenue.

The ability of CFI Group to continue as a going concern and to meet its liabilities as and when they fall due is dependent, inter alia, on the continuing support of CFI Group's creditors, including a bank loan for the sum of $7,282,000 which is supported by a corporate guarantee from QAF Limited, continuing to be extended to CFI Group and the ability of CFI to secure new businesses and/or new investors.

If CFI Group is unable to continue in operational existence, it may be unable to discharge its liabilities in the normal course of business and, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from amounts at which they are currently recorded in the balance sheet. In addition, CFI Group may need to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to CFI's financial statements.

(2) CFI and its directors had in CFI's published unaudited full year financial announcements and CFI Financial Statements for the year ended 31 December 2006 highlighted, inter-alia, that:

(i) Due to the complexity of the events uncovered in the PRC Subsidiaries and the volume and scope of the suspected transactions involved, the quality and reliability of the entire accounting records as kept by the former management of the PRC Subsidiaries up to the end of June 2006 could be inaccurate and unreliable. Due to the change of the management and personnel in the PRC Subsidiaries, the incompleteness and unsystematic keeping of past records, the current management of CFI has been unable to reconstruct the books and records of the PRC Subsidiaries in order to arrive at a set of reliable financials under the constraint of time, manpower and cost.

1. General (cont'd)

(b) China Food Industries Limited ("CFI") financial statements as attached to its annual report issued for financial year ended 31 December 2006 ("CFI Financial Statements") (cont'd)

(ii) As the PRC Subsidiaries have commenced the process for voluntary liquidation, the directors of CFI have exercised judgement to provide impairment loss to the book values of the property, plant and equipment (including land use rights) of the PRC Subsidiaries by 30% as at 31 December 2006.

(iii) The PRC Subsidiaries of CFI had a total of RMB88 million recorded in their books as outstanding bank borrowings. As at 28 February 2007, CFI had announced that legal claims taken by the banks had amounted to RMB18 million.

The directors of CFI have been unable to establish the validity of the loan amounts recorded in the balance sheets of the PRC Subsidiaries based on the books kept by the former management of the PRC Subsidiaries.

(iv) The PRC Subsidiaries of CFI had allegedly issued corporate guarantees to guarantee the borrowings of a third party from banks amounting to approximately RMB73.65 million.

As at 28 February 2007, CFI had announced that actions commenced by the banks claiming against the PRC Subsidiaries for the said guarantees amounted to RMB67.7 million. No provision had been made by the CFI Group in respect of the said legal claims for the financial year ended 31 December 2006 results as it was difficult to ascertain the outcome of such claims at the time of the said announcement.

Notwithstanding the abovesaid disclaimer opinion of the CFI Auditors, qualifications and limitations on the financial statements of CFI and the CFI Group for the financial year ended 31 December 2006, the CFI Financial Statements are consolidated as a subsidiary of the Company as required by the Singapore Financial Reporting Standards and the Companies Act.

2. Summary of significant accounting policies

2.1 Basis of preparation

Subject to the disclosure made on the financial statements of CFI group in Note 1(b) herein above provided, the consolidated financial statements of the Group and the balance sheet of the Company have been prepared in accordance with the provisions of the Singapore Companies Act, Cap. 50 and Singapore Financial Reporting Standards ("FRS").

The accounting policies have been consistently applied by the Company and Group and are consistent with those used in the previous year, except for the changes in accounting policies discussed more fully in Note 2.2 below.

The financial statements have been prepared on a historical cost basis, except for certain property, plant and equipment, financial instruments, available-for-sale financial assets and biological assets that have been measured at their fair values.

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

2.2 Changes in accounting policies

(a) The following accounting policies were changed with effect from 1 January 2006 :

(i) Revised FRS 19 : Employee Benefits

The revised standard introduces an alternative accounting treatment for actuarial gains and losses on defined benefit schemes. The new alternative accounting treatment allows an entity to recognise the actuarial gains and losses in full in the year they arose by taking the gains/losses directly to equity.

The Group has adopted the new alternative accounting treatment. The effect of adopting the new alternative accounting treatment resulted in an increase of $221,000 in the Group's non-current assets and a corresponding increase of $221,000 in the reserves as at 1 January 2005 and $882,000 in the reserves as at 1 January 2006. There is no impact to the profit and loss account for the financial years ended 31 December 2005 and 31 December 2006.

(ii) FRS 12 : Income Taxes

The Group's policy was to recognise tax benefit on reinvestment allowances as and when they were utilised. The Group changed this policy on 1 January 2006 as reinvestment allowances are now viewed as tax credits under FRS 12. The revised policy now requires the Group to recognise deferred tax asset and a corresponding credit in the profit and loss account on the unutilised reinvestment allowances at the time such allowances arise. In subsequent years, the deferred tax asset will be reduced with a corresponding debit to the profit and loss account as the unutilised reinvestment allowances are utilised.

As at 1 January 2005, the effect of the change in accounting policy resulted in a decrease in the Group's deferred tax liabilities of $6,353,000, and an increase to the reserves and minority interests of $4,447,000 and $1,906,000 respectively. The impact to the profit and loss account for the financial years ended 31 December 2005 and 31 December 2006 are additional tax expense of $1,725,000 and $1,852,000 respectively.

Apart from the above, the Group adopted various revisions in FRS applicable from 1 January 2006. These do not have a material financial impact on the Group.

(In Singapore dollars)

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

2.2 Changes in accounting policies (cont'd)

(b) FRS and Interpretation of Financial Reporting Standard ("INT FRS") not yet effective

The Group has not applied the following FRS and INT FRS that have been issued as at the balance sheet date but not yet effective.

			Effective date (annual periods beginning on or after)
FRS 1	:	Amendment to FRS 1 (revised), Presentation of Financial Statements (Capital Disclosures)	1 January 2007
FRS 40	:	Investment Property	1 January 2007
FRS 107	:	Financial Instruments: Disclosures	1 January 2007
INT FRS 107	:	Applying the Restatement Approach under FRS 29, Financial Reporting in Hyperinflationary Economies	1 March 2006
INT FRS 108	:	Scope of FRS 102, Share-based Payment	1 May 2006
INT FRS 109	:	Reassessment of Embedded Derivatives	1 June 2006
INT FRS 110	:	Interim Financial Reporting and Impairment	1 November 2006

The Group expects that the adoption of the above pronouncements will have no material impact to the financial statements in the period of initial application, except for FRS 107 and the amendment to FRS 1 as indicated below.

FRS 107, Financial Instruments: Disclosures and amendment to FRS 1 (revised), Presentation of Financial Statements (Capital Disclosures)

FRS 107 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to FRS 1 requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The Group will apply FRS 107 and the amendment to FRS 1 from annual period beginning 1 January 2007.

2.3 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. Where the accounting policies of subsidiary companies do not conform with those of the Group, adjustments are made where the amounts involved are considered significant to the Group. Inter-company balances and transactions and resulting unrealised profits are eliminated in full on consolidation.

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

2.3 Basis of consolidation (cont'd)

Acquisition of subsidiary companies is accounted for using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest. Please refer to Note 2.11 for the accounting policy on goodwill on acquisition of subsidiary companies.

2.4 Foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Singapore dollars, which is the Company's functional and presentation currency.

Transactions arising in foreign currencies during the year are translated into functional 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 functional 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 in the consolidated balance sheet.

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.

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.

2.5 Property, plant and equipment

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

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

(In Singapore dollars)

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

2.6 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 - $2^1/_2$
Leasehold properties	-	2 - 6
Leasehold improvements	-	2 - 20
Plant and machinery	-	5 - $33^1/_3$
Furniture, fittings and office equipment	-	$7^1/_2$ - 40
Motor vehicles	-	10 - $33^1/_3$

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

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

2.7 Subsidiary companies

A subsidiary company is a company over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's separate financial statements, investments in subsidiary companies are accounted for at cost less impairment losses.

2.8 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 available financial statements of the companies concerned, made up to the end of the financial year of the Group.

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

2.8 Associated and joint venture companies (cont'd)

However, for publicly listed associated companies, it would not be practicable to ensure that their results are released prior to the results of the Group. Therefore, the Group accounts for its share of the results of publicly listed associated companies based on their publicly-announced financial statements for the twelve months period ended 30 September. This is applied on a consistent basis and adjustments are made for any significant events that occur between 30 September and 31 December. As such, the Group will account the results of publicly listed associated companies with a time lag of 3 months.

Where the accounting policies of associated and joint venture companies do not conform with those of the Group, adjustments are made if the amounts involved are considered to be significant to the Group.

Goodwill relating to an associated company is included in the carrying amount of the investment.

In the Company's separate financial statements, investments in associated and joint venture companies are accounted for at cost less impairment losses.

2.9 Minority Interests

Minority interests shown in the consolidated balance sheet and consolidated profit and loss account represent their share of the net equity and profit after taxation respectively of the subsidiary companies.

2.10 Financial assets

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the profit and loss account.

The Group does not designate any financial assets not held for trading as financial assets at fair value through profit and loss.

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

2.10 Financial assets (cont'd)

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the assets to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount and minus any reduction for impairment or uncollectibility. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the profit and loss account when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in the fair value reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

The fair value of investments that are actively traded in organised financial markets is determined by reference to the relevant Exchange's quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models. Where the fair value cannot be reliably determined, investments will be carried at cost.

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

2.11 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. Goodwill which is assessed as having no continuing economic value is written off immediately to the consolidated profit and loss account.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(ii) Negative goodwill

Negative goodwill arising on acquisition represents the excess of the fair value of the identifiable net assets acquired over the cost of acquisition. Such negative goodwill will be recognised immediately in the profit and loss account.

(iii) Trademarks

Costs relating to trademarks are stated at cost less accumulated amortisation and impairment loss. The useful lives of trademarks are assessed to be either finite or indefinite. Trademarks with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the trademark may be impaired. The amortisation period and the amortisation method for trademarks with finite useful lives are reviewed at least at each financial year-end. The amortisation expense on trademarks with finite lives is recognised in the profit and loss account through the "amortisation and depreciation" line item.

Trademarks with indefinite useful lives are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such trademarks are not amortised. The useful life of trademarks with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable.

(iv) Others

Preliminary and pre-operating expenses, and research and development costs are expensed as incurred, except for development expenditure which are expected to generate future economic benefits. Such development expenditure are capitalised and amortised through the profit and loss account on a straight-line basis over its useful life.

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

2.12 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. Allowance is made, where necessary, for obsolete, slow-moving and defective inventories.

2.13 Biological assets

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 increase or decrease in the fair value of livestock are included in the profit and loss account, determined as :

(i) 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

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

Saplings (current and non-current)

Saplings are stated at cost less any impairment losses as their fair value cannot be measured reliably due to lack of active market.

Saplings that are not ready for sale are classified as non-current assets and saplings that are ready for sale are classified as current assets.

Cost is primarily determined on a weighted average basis and includes all costs of bringing the saplings to their present location and condition.

Net realisable value is the price at which the saplings can be realised in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion. Allowance is made, where necessary, for obsolete, slow-moving and defective saplings.

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

2.14 Trade and other receivables

Trade and other receivables, which generally have 30-60 day terms, are recognised and carried at original invoiced amount less allowance 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 account as incurred.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not de-recognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions are recorded as borrowings. Any fee incurred to effect factoring is net-off against borrowings and taken to the profit and loss account over the period of factoring using the effective interest method.

2.15 Impairment of non-financial assets

Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- Is not larger than a segment based on either the Group's primary or the Group's secondary reporting format.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

2.15 Impairment of non-financial assets (cont'd)

Other assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets that have an indefinite useful life and are not subject to amortisation or depreciation are tested annually for impairment.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the profit and loss account. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

Reversal of impairment losses recognised in prior years is recorded when there has been a change in the estimates used to determine the recoverable amount. The reversal is recorded in income. 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.

2.16 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.

2.17 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.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.18 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 using the effective interest method, taking into account any discount or premium on settlement.

2.19 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

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

2.20 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.

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 income is recognised on a straight-line basis over the lease term.

Interest income is recognised on effective interest rate method.

Dividend income is recorded gross in the profit and loss account 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.

2.21 Income taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

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 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.

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

2.21 Income taxes (cont'd)

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.

2.22 Borrowing costs

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

2.23 Employee benefits

(i) Executives' Share Option Scheme

The Company has in place the QAF Limited Share Option Scheme 2000 for the granting of share options to eligible employees of the Group to subscribe for ordinary shares in the Company.

The cost of such transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the binomial model. In valuing these transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions").

The cost of these equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Company at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

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

2.23 Employee benefits (cont'd)

(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 in full in the year they arose by taking the gains/losses directly to equity.

(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.

2.24 Leases

Finance leases

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

Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Rental income arising on operating leases is recorded as income in the profit and loss account on a straight-line basis over the lease terms.

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

2.25 Segment information

The Group's operating businesses are organised and managed separately according to the nature of their activities, namely food manufacturing, bakery, 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 agreed between the parties.

2.26 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

(a) Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(b) Assets carried at cost

If there is objective evidence that an impairment loss on a financial asset carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(c) Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss account, is transferred from equity to the profit and loss account. Reversals of impairment loss in respect of equity instruments are not recognised in the profit and loss account. Reversals of impairment losses on debt instruments are reversed through the profit and loss account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account.

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

2.27 Derecognition of financial assets and liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where :

- The contractual rights to receive cash flows from the asset have expired;
- The Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss account.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss account.

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

2.28 Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of trademarks

The Company and Group determines whether trademarks are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the trademarks are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's and the Group's trademarks at 31 December 2006 was $3,823,000 (2005 : $4,750,000) and $1,161,000 (2005 : $1,302,000) respectively. More details are given in Note 23.

(ii) Income taxes

The Group operates in various countries and is subject to different tax jurisdictions. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Company's and the Group's provision for taxation as at 31 December 2006 was $904,000 (2005 : $899,000) and $4,801,000 (2005 : $4,927,000) respectively. The carrying amount of the Company's and Group's net deferred tax liabilities as at 31 December 2006 was $408,000 (2005 : $324,000) and $5,647,000 (2005 : $3,012,000) respectively.

(iii) Depreciation of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these assets to be within 2.5 to 50 years. The carrying amount of the Company's and Group's property, plant and equipment at 31 December 2006 was $2,779,000 (2005 : $2,771,000) and $374,013,000 (2005 : $395,977,000). Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(iv) Pension assets

Various actuarial assumptions are required when determining the Group's pension obligations. These assumptions and the related carrying amounts are disclosed in Note 21.

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

2.28 Significant accounting estimates and judgements (cont'd)

Critical judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made certain judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements.

- Impairment of investments and financial assets

  The determination of whether an investment is impaired requires significant judgement. The Group evaluates, among other factors, the duration and extent to which the fair value of an investment or financial asset is less than its cost, and the financial health of and near-term business outlook for the investment or financial asset, including factors such as industry performance, changes in technology and operational and financing cash flow.

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	
	2006 $'000	2005 $'000
Sale of goods	972,402	872,999
Rental income from storage and warehousing facilities	5,658	6,072
Interest income from:		
- Fixed deposits with financial institutions	1,182	788
- Advances to associated and joint venture companies	416	452
- Others	970	663
Gross dividends from investments	212	355
Gain on disposal of property, plant and equipment	3,440	393
Gain on disposal of long-term investments	2,371	49
Miscellaneous	5,396	4,094
	992,047	885,865

4. Staff costs

Staff costs (including Executive Directors) :		
- salaries, wages and other related costs	144,765	139,928
- CPF and contributions to other plans	6,801	6,707
- superannuation contributions	5,638	5,402
- share options granted to employees and directors	675	398
	157,879	152,435

5. Amortisation and depreciation

	Group 2006 $'000	Group 2005 $'000
Amortisation of intangibles (Note 23)	138	138
Depreciation of property, plant and equipment (Note 17)	34,927	32,305
	35,065	32,443

6. Profit from operating activities

Profit from operating activities is stated after charging/(crediting) :

	2006	2005
Professional fees for non-audit services rendered :		
- by the auditors of the Company	888	–
- by other auditors	13	114
Fees and remuneration for the directors of the Company :		
- fees and remuneration	2,444	2,045
- contribution to the Central Provident Fund	21	29
- share options granted to directors	134	105
Research and development cost	8,149	7,943
(Increase)/decrease in the fair value less estimated point-of-sale costs of livestock, net	(296)	3,375
Foreign exchange (gain)/loss	(2,285)	2,182
Operating lease rentals	6,665	4,820
Allowance for inventory obsolescence	1,379	1,212
Allowance for doubtful debts and debts written off	1,234	454
Fair value changes on derivative financial instruments	1,372	–

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

	2006	2005
$1,500,000 to below $1,750,000	1	-
$1,250,000 to below $1,500,000	-	1
$250,000 to below $500,000	2	2
Below $250,000	5	5
Total	8	8
Executive directors	3	3
Non-executive directors	5	5
Total	8	8

7. Finance costs

	Group 2006 $'000	Group 2005 $'000
Interest expense on bank loans and finance leases	19,793	13,807

8. Exceptional items

	Group 2006 $'000	Group 2005 $'000
Net gain on disposal/liquidation of subsidiary companies	384	486
Impairment on long-term investments	(2,070)	–
Impairment on investment in an associated company	(6,437)	–
Impairment on property, plant and equipment (Note 17(f))	(11,564)	–
Allowance for inventory (Note 1(b))	–	(5,747)
Allowance for doubtful debts (Note 1(b))	–	(7,437)
Loss on disposal of an associated company	–	(135)
Impairment on goodwill on consolidation of a subsidiary company	–	(4,446)
Negative goodwill on acquisition of an associated company	–	6,109
	(19,687)	(11,170)

9. Taxation

	Group 2006 $'000	Group 2005 $'000
Income tax expense on the profit for the year :		
- current tax	6,027	5,538
- deferred tax	2,873	1,293
	8,900	6,831
Under/(over) provision in respect of prior years :		
- current tax	244	(181)
- deferred tax	384	(360)
Tax expense	9,528	6,290

9. Taxation (cont'd)

The income tax expense on the results of the Group differ from the amount of tax determined by applying the Singapore statutory tax rate of 20% (2005 : 20%) to the profit before taxation due to the following factors :

	Group 2006 $'000	Group 2005 $'000
Profit before taxation	29,029	17,664
Tax expense at statutory tax rate of 20%	5,806	3,533
Adjustments :		
Income not subject to tax	(4,213)	(3,147)
Expenses not deductible for tax purposes	7,389	7,368
Tax reliefs, rebates and incentives	(919)	(2,920)
Utilisation of tax benefits not recognised in previous years	(4,858)	(1,126)
Tax benefits not recognised in current year	1,240	840
Difference in effective tax rates in other countries	4,481	2,600
Under/(over) provision in respect of prior years	628	(541)
Others	(26)	(317)
Tax expense	9,528	6,290

The Group has unutilised tax losses and capital allowances of approximately $52,888,000 (2005 : $66,569,000) and $1,570,000 (2005 : $637,000) respectively, which subject to the provisions of relevant local tax legislation and agreement with the relevant tax authorities, can 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 ("EPS")

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

	Group	
	2006	**2005**
	$'000	**$'000**
Group earnings used for the calculation of EPS :		
Profit for the financial year attributable to shareholders	21,466	15,450

	2006	**2005**
	'000	**'000**
Number of shares used for the calculation of :		
(i) Basic EPS		
Weighted average number of ordinary shares in issue	447,235	439,767
(ii) Diluted EPS		
Weighted average number of ordinary shares in issue	447,235	439,767
Share options	224	134
Warrants 2009	3,553	577
Adjusted weighted average number of ordinary shares	451,012	440,478

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. Biological assets

	Group 2006 $'000	Group 2005 $'000
Current		
Livestock		
- at fair value	36,156	37,699
- at cost	28,610	27,572
	64,766	65,271
Saplings		
- at cost	867	1,468
	65,633	66,739
Non-current		
Saplings		
- at cost	5,140	3,369

(a) Livestock

The Group's livestock comprises mainly 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.

	2006	2005
Physical quantity of pigs :		
- Number of progeny	495,096	493,722
- Number of breeders	69,257	71,847
	564,353	565,569

11. Biological assets (cont'd)

	Group 2006 $'000	Group 2005 $'000
Reconciliation of changes in the carrying amount :		
Balance at 1 January	65,271	64,753
Currency realignment	(237)	(2,558)
Acquisition of subsidiary company	–	6,451
Loss arising from changes in fair value less estimated point-of-sale costs attributable to physical changes	(3,232)	(3,383)
Gain arising from changes in fair value less estimated point-of-sale costs attributable to price changes	3,528	8
Net change in CFI group's carrying amount	(564)	–
Balance at 31 December	64,766	65,271

Included in livestock as at 31 December 2006 are $5,758,000 (2005 : $6,322,000) relating to CFI group.

(b) Saplings

The Group's saplings are located in the People's Republic of China. The Group has measured saplings at cost as there is no objective way of determining the fair value of the saplings due to the lack of active market.

	Group 2006 $'000	Group 2005 $'000
Reconciliation of changes in the carrying amount :		
Balance at 1 January	4,837	–
Acquisition of subsidiary company	–	4,250
Currency realignment	(193)	62
Additions	1,363	525
Balance at 31 December	6,007	4,837

12. Inventories

	Group 2006 $'000	Group 2005 $'000
Raw materials	55,668	46,170
Finished goods	69,990	69,735
Spare parts and consumables	10,450	11,503
Work-in-progress	35,861	13,754
Goods-in-transit	7,268	5,148
Total inventories at lower of cost and net realisable value	179,237	146,310

12. Inventories (cont'd)

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

	Group	
	2006 $'000	2005 $'000
First-in-first-out	14,990	13,683
Weighted average	164,247	132,627
	179,237	146,310
Inventories are stated after deducting allowance for obsolescence of	1,507	1,240

Raw materials of the Group as at 31 December 2006 amounting to $28,484,000 (2005 : $25,608,000) have been pledged to a bank in connection with credit facilities granted to a subsidiary company.

Included in inventories as at 31 December 2006 are $3,711,000 (2005 : $14,895,000) relating to CFI group.

13. Trade receivables

Trade debtors		
- third parties	137,061	122,255
- associated company	–	4
- joint venture company	2,476	2,630
	139,537	124,889
Less : Allowance for doubtful debts - third parties	(12,391)	(13,461)
	127,146	111,428

Trade receivables amounting to $33,975,000 (2005 : $14,999,000) have been factored to banks with recourse to the Group as at the balance sheet date. The corresponding cash received is recorded as bank borrowings.

Trade receivables were denominated in the following currencies at the balance sheet date :

Singapore Dollar	24,723	25,936
United States Dollar	49,654	35,239
Australian Dollar	27,893	29,007
Malaysian Ringgit	5,809	6,164
Chinese Renminbi	12,488	9,804
Others	6,579	5,278
	127,146	111,428

Included in trade receivables as at 31 December 2006 are $1,793,000 (2005 : $4,312,000) relating to CFI group.

14. Other receivables

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Non-financial assets				
Prepayments	17,656	21,663	37	20
Financial assets				
Sundry deposits	829	887	10	10
Staff advances and loans	14	251	2	3
Sundry debtors	24,817	19,614	7	21
Less : Allowance for doubtful debts	(1,956)	(1,963)	–	–
	22,861	17,651	7	21
Amounts due from subsidiary companies				
- interest bearing	–	–	126,389	127,060
- non-interest bearing	–	–	57,357	48,973
Less : Allowance for doubtful debts	–	–	(9,559)	(9,059)
	–	–	174,187	166,974
Amount due from joint venture company	11	–	–	–
	23,715	18,789	174,206	167,008
	41,371	40,452	174,243	167,028

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 and repayable upon demand. The interest bearing amounts due from subsidiary companies are unsecured, bear interests at rates ranging from 1.50% to 7.60% (2005 : 1.50% to 6.85%) per annum and are repayable upon demand.

Amount due from joint venture company is unsecured, interest-free and is repayable upon demand.

The amounts due from subsidiary companies and joint venture company are to be settled in cash.

Other receivables were denominated in the following currencies at the balance sheet date :

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Singapore Dollar	623	963	89,434	81,612
United States Dollar	1,630	607	42,552	45,869
Australian Dollar	2,566	7,704	32,319	27,718
Malaysian Ringgit	1,617	1,284	15	–
Chinese Renminbi	33,480	28,155	–	–
Others	1,455	1,739	9,923	11,829
	41,371	40,452	174,243	167,028

Included in other receivables as at 31 December 2006 are $3,695,000 (2005 : $10,959,000) relating to CFI group.

15. Short-term investments

	Group 2006 $'000	Group 2005 $'000
Unquoted equity shares in corporations, at fair value	153	–

16. Cash and deposits

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Cash and bank balances (Note 32)	31,194	37,801	1,726	1,305
Fixed deposits with financial institutions (Note 32)	29,916	47,012	11,870	17,834
	61,110	84,813	13,596	19,139

Fixed deposits are placed for varying periods between three to thirty days and the effective interest rate on the fixed deposits approximate 3.52% (2005 : 3.08%) per annum.

Cash and deposits were denominated in the following currencies at the balance sheet date :

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Singapore Dollar	24,254	14,836	12,194	6,016
United States Dollar	4,187	2,490	1,261	213
Australian Dollar	12,512	35,104	140	12,910
Malaysian Ringgit	5,827	5,516	1	–
Chinese Renminbi	13,812	26,094	–	–
Others	518	773	–	–
	61,110	84,813	13,596	19,139

Included in cash and deposits as at 31 December 2006 are $1,388,000 (2005 : $8,306,000) relating to CFI group.

17. Property, plant and equipment

	Freehold land $'000	Freehold buildings $'000	Leasehold properties $'000
Group			
Cost/valuation :			
At 1.1.2005	16,932	116,528	95,398
Currency realignment	(655)	(4,903)	980
Additions	133	89	3,016
Disposals	–	–	–
Acquisition of subsidiary companies	–	–	50,839
Disposal of subsidiary companies	–	–	–
Transfers	4,597	9,058	(5,329)
At 31.12.2005 and 1.1.2006	21,007	120,772	144,904
Currency realignment	(113)	(555)	(3,032)
Additions	–	28	4,665
Disposals	–	–	(1,014)
Disposal of subsidiary companies	–	–	(1,609)
Transfers	24	903	5,780
At 31.12.2006	20,918	121,148	149,694
Accumulated depreciation and impairment loss :			
At 1.1.2005	–	38,664	30,326
Currency realignment	–	(1,786)	(26)
Charge for the year	–	3,999	3,926
Disposals	–	–	–
Acquisition of subsidiary companies	–	–	4,928
Disposal of subsidiary companies	–	–	–
Transfers	–	616	(925)
Impairment loss	–	–	–
At 31.12.2005 and 1.1.2006	–	41,493	38,229
Currency realignment	–	(124)	(162)
Charge for the year	–	3,861	4,696
Disposals	–	–	(1,008)
Disposal of subsidiary companies	–	–	(1,056)
Transfers	–	–	123
Impairment loss	–	–	7,290
At 31.12.2006	–	45,230	48,112
Net book value :			
At 31.12.2006	20,918	75,918	101,582
At 31.12.2005	21,007	79,279	106,675

Notes to the Financial Statements

- 31 December 2006
(In Singapore dollars)

Leasehold improvements $'000	Plant and machinery $'000	Furniture, fittings and office equipment $'000	Motor vehicles $'000	Construction-in-progress $'000	Total $'000
15,795	261,106	23,497	31,194	2,738	563,188
225	(2,388)	(289)	245	224	(6,561)
849	5,405	1,753	1,940	12,040	25,225
(2)	(732)	(164)	(3,335)	(2,791)	(7,024)
–	76,869	3,344	3,663	13,162	147,877
–	–	(8)	(30)	(953)	(991)
(2,735)	4,710	(752)	577	(10,126)	–
14,132	344,970	27,381	34,254	14,294	721,714
(49)	(5,304)	(303)	(340)	(843)	(10,539)
545	13,764	2,124	2,958	11,245	35,329
(369)	(6,167)	(611)	(1,971)	(325)	(10,457)
(220)	(648)	(109)	–	–	(2,586)
277	7,637	(860)	59	(13,820)	–
14,316	354,252	27,622	34,960	10,551	733,461
5,921	165,143	18,218	21,438	–	279,710
57	(3,019)	(287)	111	18	(4,932)
682	17,907	2,110	3,681	–	32,305
(2)	(599)	(226)	(2,942)	–	(3,769)
–	14,948	1,014	1,284	–	22,174
–	–	(1)	(8)	(621)	(630)
97	490	(261)	(17)	–	–
203	–	73	–	603	879
6,958	194,870	20,640	23,547	–	325,737
(22)	(1,531)	(116)	(191)	–	(2,146)
717	19,925	2,063	3,665	–	34,927
(346)	(5,397)	(346)	(1,639)	–	(8,736)
(195)	(626)	(92)	–	–	(1,969)
(34)	453	(513)	(29)	–	–
–	2,937	100	83	1,225	11,635
7,078	210,631	21,736	25,436	1,225	359,448
7,238	143,621	5,886	9,524	9,326	374,013
7,174	150,100	6,741	10,707	14,294	395,977

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

Analysis of cost and valuation

	Cost $'000	Assets at valuation $'000	Total $'000
At 31 December 2006			
Freehold land	20,918	–	20,918
Freehold buildings	121,148	–	121,148
Leasehold properties	134,823	14,871	149,694
Leasehold improvements	14,316	–	14,316
Plant and machinery	354,252	–	354,252
Furniture, fittings and office equipment	27,622	–	27,622
Motor vehicles	34,960	–	34,960
Construction-in-progress	10,551	–	10,551
	718,590	14,871	733,461
At 31 December 2005			
Freehold land	21,007	–	21,007
Freehold buildings	120,772	–	120,772
Leasehold properties	129,861	15,043	144,904
Leasehold improvements	14,132	–	14,132
Plant and machinery	344,970	–	344,970
Furniture, fittings and office equipment	27,381	–	27,381
Motor vehicles	34,254	–	34,254
Construction-in-progress	14,294	–	14,294
	706,671	15,043	721,714

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

	Leasehold office and improvements $'000	Furniture, fittings and office equipment $'000	Motor vehicles $'000	Total $'000
Company				
Cost :				
At 1.1.2005	2,775	958	606	4,339
Additions	–	21	–	21
Disposals	–	(3)	–	(3)
At 31.12.2005 and 1.1.2006	2,775	976	606	4,357
Additions	42	46	166	254
Disposals	–	(6)	–	(6)
At 31.12.2006	2,817	1,016	772	4,605
Accumulated depreciation :				
At 1.1.2005	315	725	309	1,349
Charge for the year	87	52	100	239
Disposals	–	(2)	–	(2)
At 31.12.2005 and 1.1.2006	402	775	409	1,586
Charge for the year	95	58	93	246
Disposals	–	(6)	–	(6)
At 31.12.2006	497	827	502	1,826
Net book value				
At 31.12.2006	2,320	189	270	2,779
At 31.12.2005	2,373	201	197	2,771

(a) Leasehold properties 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. This one-off 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 properties had it been carried at cost is $97,673,000 (2005 : $102,799,000).

(c) During the year, the Group acquired property, plant and equipment with an aggregate cost of $2,024,000 by means of finance leases. The net book value of property, plant and equipment held under finance leases as at 31 December 2006 was $3,764,000 (2005 : $3,095,000).

(d) Included in the Group's property, plant and equipment are property, plant and equipment of certain subsidiary companies with a net book value of $5,136,000 (2005 : $5,757,000) which are not in commercial use as at 31 December 2006.

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

(e) At the end of the financial year, property, plant and equipment with book values of $66,546,000 (2005 : $46,345,000) were mortgaged/pledged to third parties to secure credit facilities.

(f) In view of the commencement of the process for voluntary liquidation of CFI's China subsidiary companies as well as the ambiguity of the ownership rights of the certain parcels of land reflected in a China subsidiary company's books, the directors of CFI have exercised their judgement, based on the proposed liquidation of the China subsidiary companies which normally entails sale of assets lower than the book values, and have written down the net book value of the property, plant and equipment by approximately 30% (amounting to $11,564,000) as at 31 December 2006. This impairment loss has been included under exceptional items in the profit and loss account.

In addition to the above, the Group also recognised an impairment loss of $71,000 (2005 : $879,000), included under other operating expenses, to write down the carrying amount of certain property, plant and equipment to its recoverable amount, which was determined based on the market value.

(g) Included in the Group's net book value of property, plant and equipment are $26,982,000 (2005 : $39,623,000) relating to CFI group.

18. Subsidiary companies

	Company	
	2006	**2005**
	$'000	**$'000**
Cost of investment :		
Unquoted equity shares, at cost	115,240	120,366
Less : Impairment loss	(2,200)	(4,626)
	113,040	115,740
Movement in impairment loss is as follows :		
Balance at beginning of year	4,626	4,126
Charged during the year	1,400	500
Write-off during the year due to disposal of a subsidiary company	(3,826)	–
Balance at end of year	2,200	4,626

During the financial year, the Company recognised an impairment loss of $1,400,000 to write down the carrying amount of its investment in a subsidiary company to management's estimate of the recoverable amount in view of the losses incurred by the subsidiary company as a result of weak demand in the dairy industry and keen competition.

18. Subsidiary companies (cont'd)

	Company 2006 $'000	Company 2005 $'000
Advances to subsidiary companies :		
Advances to subsidiary companies	99,310	107,163
Less : Allowance for doubtful debts	(33,400)	(5,067)
	65,910	102,096

The advances to subsidiary companies, denominated in Singapore Dollars, are unsecured and interest-free except for an amount of $1,700,000 with effective interest rates ranging from 5.50% to 6.25% (2005 : interest-free) per annum. These advances have no fixed terms of repayment and no repayments are expected within the next 12 months.

The Company has made the following allowances for doubtful debts during the financial year against the advances due from certain subsidiary companies:

(i) an amount of $8,700,000 to reduce the advances due from a subsidiary company to $13,370,000 in connection with the investment in Zhongguo Jilong Limited; and

(ii) an amount of $23,500,000 to reduce the advances due from a subsidiary company to $3,566,000 in connection with the investment in CFI.

Details of subsidiary companies are set out in Note 40.

19. Associated companies

	Group 2006 $'000	Group 2005 $'000
Equity shares, at cost		
- unquoted	657	657
- quoted	55,809	54,998
Group's share of post-acquisition accumulated profits and losses	2,439	1,001
Currency realignment	(1,418)	(393)
Negative goodwill recognised in the profit and loss account	6,109	6,109
Impairment loss on a quoted investment	(6,437)	-
	57,159	62,372
Fair value based on market price as at end of year		
- quoted equity shares in corporations	44,600	50,418

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

Advances to associated companies	2,101	2,102

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. Effective interest rate approximating 11.04% (2005 : 10.09%) per annum is receivable on the advances.

19. Associated companies (cont'd)

Details of associated companies are set out in Note 40.

The summarised financial information of the associated companies are as follows :

	Group 2006 $'000	Group 2005 $'000
Balance sheet :		
Property, plant and equipment	103,912	50,080
Other assets	276,891	272,388
Liabilities	(122,407)	(65,308)
	258,396	257,160
Profit and loss account :		
Revenue	326,815	110,434
Expenditure	(312,949)	(102,872)
Profit before taxation	13,866	7,562
Taxation	(3,468)	(1,379)
Profit after taxation	10,398	6,183

During the financial year, the Group has equity accounted its share of losses amounting to $685,000 of its listed associated company, Zhongguo Jilong Limited ("Jilong"), based on Jilong's unaudited financial statements up to 30 September 2006 and its profit warning dated 20 December 2006 in respect of the financial year ended 31 December 2006. Jilong has halted and suspended its shares from trading since 7 February 2007 and had announced that its external auditors have raised certain likely irregularities with respect to the financial matters to the attention of Jilong's Audit Committee. The external auditors have reported to the Minister of Finance these irregularities and submitted their interim report to the Minister of Finance. As such, the Group has taken the position to provide for possible impairment on its investments in Jilong by writing down the carrying value to the market value of Jilong's shares based on the market price as at 7 February 2007, the date Jilong's shares were halted from trading. Accordingly, an impairment loss of $6,437,000, included under exceptional items, has been recognised on the Group's investment in Jilong to reduce the carrying value to $12,151,000 as at 31 December 2006.

20. Joint venture company

Unquoted equity shares, at cost	2,997	2,997
Acquisition costs	52	52
Group's share of post-acquisition accumulated profits and losses	350	(210)
Currency realignment	646	651
	4,045	3,490
Advances to joint venture company	552	622

20. Joint venture company (cont'd)

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 40.

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

	Group	
	2006 $'000	2005 $'000
Balance sheet :		
Property, plant and equipment	6,660	6,747
Other assets	2,091	1,898
Liabilities	(4,758)	(5,207)
	3,993	3,438
Profit and loss account :		
Revenue	21,186	25,050
Expenditure	(20,386)	(24,940)
Profit before taxation	800	110
Taxation	(240)	(33)
Profit after taxation	560	77

21. Pension assets

The Group's companies in Australia 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. The last actuarial assessment was completed as at 30 June 2005 by an independent actuary and updated to 31 December 2006.

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.

21. Pension assets (cont'd)

	Group 2006 $'000	Group 2005 $'000
Benefit asset/(liability)		
Fair value of plan assets	25,961	25,718
Present value of benefit obligation	(24,399)	(24,458)
Net benefit asset	1,562	1,260
Changes in the fair value of plan assets are as follows :		
Opening defined benefit obligation	25,718	22,945
Expected return on plan assets	1,490	1,362
Actuarial gains	1,778	1,061
Employer contributions	1,093	1,059
Contributions by plan participants	990	841
Benefits paid	(4,549)	(425)
Taxes, premiums and expenses paid	(458)	–
Currency realignment	(101)	(1,125)
Fair value of plan assets	25,961	25,718
Changes in the present value of the defined benefit obligation are as follows :		
Opening defined benefit obligation	24,458	22,629
Interest cost	961	907
Current service cost	1,092	1,071
Contributions by plan participants	990	841
Benefits paid	(4,549)	(425)
Actuarial losses on obligation	1,361	507
Taxes, premiums and expenses paid	(458)	–
Past service costs	644	–
Currency realignment	(100)	(1,072)
Closing defined benefit obligation	24,399	24,458

The Group expects to contribute $924,000 to its defined benefit pension plan in 2007.

21. Pension assets (cont'd)

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows :

	Group 2006 %	Group 2005 %
Australian equities	40	38
Overseas equities	25	27
Fixed interest securities	25	24
Property	5	7
Other	5	4
	100	100

The principal actuarial assumptions used in determining pension benefit obligations for the Group's plan are shown below (expressed as weighted averages) :

	%	%
Discount rate	4.7	4.5
Salary increase rate	4.0	4.0
Expected rate of return on assets	6.5	6.5

The following table summarise the components of net benefit expense recognised in the consolidated profit and loss account :

	Group 2006 $'000	Group 2005 $'000
Net benefit expense (recognised within staff costs)		
Service cost	1,092	1,071
Interest cost	961	907
Past service cost	644	–
Expected return on assets	(1,490)	(1,362)
	1,207	616

Amounts for the current and previous four periods are as follows :

	Group 2006 $'000	Group 2005 $'000	Group 2004 $'000	Group 2003 $'000	Group 2002 $'000
Plan assets	25,961	25,718	23,137	20,040	13,873
Defined benefit obligation	(24,399)	(24,458)	(22,751)	(20,464)	(13,916)
	1,562	1,260	386	(424)	(43)

22. Long-term investments

	Group		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Available-for-sale				
Quoted equity shares in corporations, at fair value	180	5,915	–	–
Unquoted investments, at cost less impairment loss	9,487	11,249	–	–
Other unquoted investments, at fair value	–	1,856	–	–
	9,667	19,020	–	–
Held-to-maturity				
Quoted bonds, at cost	–	998	–	998
	9,667	20,018	–	998

Movements in impairment loss are as follows :
Quoted equity shares in corporation :

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Balance at beginning of year	–	–	–	–
Charged during the year	270	–	–	–
Balance at end of year	270	–	–	–

Unquoted investments :

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Balance at beginning of year	3,700	3,700	–	–
Charged during the year	1,800	–	–	–
Balance at end of year	5,500	3,700	–	–

Included in unquoted investments as at 31 December 2006 are unsecured and non-interest bearing advances provided by the Group to Gardenia Foods (Thailand) Ltd ("GFT") prior to the disposal of GFT in 2003. The advances will be converted to shares in GFT in the event of GFT's initial public offer.

The Group recognised an impairment charge of $1,800,000 (2005 : $nil) to write down the carrying amount of unquoted investments to the recoverable amount due to the decrease in the expected future economic benefits from the investment. The recoverable value was determined based on the discounted cash flow calculated using a discount rate of 9.0%. The impairment loss is included under exceptional items.

The Group also recognised an impairment charge of $270,000 (2005 : $nil) to write down the carrying amount of quoted equity shares to the market value. The impairment loss is included under exceptional items.

Included in long-term investments as at 31 December 2006 are $272,000 (2005 : $377,000) relating to CFI group.

23. Intangibles

	Group $'000	Company $'000
Trademark		
Cost :		
At 1.1.2005	3,577	2,750
Current realignment	(35)	–
Additions	–	4,400
At 31.12.2005 and 1.1.2006	3,542	7,150
Currency realignment	(3)	–
At 31.12.2006	3,539	7,150
Accumulated amortisation and impairment loss :		
At 1.1.2005	2,105	2,042
Amortisation for the year	138	358
Current realignment	(3)	–
At 31.12.2005 and 1.1.2006	2,240	2,400
Amortisation for the year (Note 5)	138	358
Impairment loss	–	569
At 31.12.2006	2,378	3,327
Net book value :		
At 31.12.2006	1,161	3,823
At 31.12.2005	1,302	4,750

Trademark with finite life are amortised over a straight-line basis over the useful life of 20 years.

During the year, the Company made an impairment charge of $569,000 to write down the carrying amount of trademark to the recoverable amount due to the decrease in the expected future economic benefits from the trademark. The recoverable value was determined based on the discounted cash flow calculated using a discount rate of 9.9%.

24. Trade payables

	Group		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade payables				
- third parties	70,357	101,353	19	11
- joint venture company	399	151	–	–
	70,756	101,504	19	11

24. Trade payables (cont'd)

Trade payables were denominated in the following currencies at the balance sheet date :

	Group		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Singapore Dollar	5,366	4,901	19	11
United States Dollar	6,726	6,031	–	–
Australian Dollar	19,872	39,299	–	–
Malaysian Ringgit	14,951	13,528	–	–
Chinese Renminbi	17,917	32,090	–	–
Others	5,924	5,655	–	–
	70,756	101,504	19	11

Included in trade payables as at 31 December 2006 are $2,760,000 (2005 : $22,922,000) relating to CFI group.

25. Other payables

(a) Other payables

	Group		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Payable within one year :				
Staff related expenses	16,727	15,629	792	885
Accrued operating expenses	12,543	14,458	455	792
Sundry creditors	28,886	22,067	–	9
Amounts due to subsidiary companies	–	–	299	7,241
Amount due to related party	1,458	1,533	–	–
Derivative financial instruments (Note 25(b))	1,372	–	1,372	–
Amounts due to minority shareholders	5,624	–	–	–
	66,610	53,687	2,918	8,927
Payable after one year :				
Provision for long service leave and retirement benefits	10,430	9,745	–	–

The amounts due to subsidiary companies are unsecured, interest-free and are repayable upon demand.

The amount due to related party is unsecured, interest-free and is repayable upon demand.

The amounts due to minority shareholders are unsecured, interest-free and are repayable upon demand.

The amounts due to subsidiary companies, related party and minority shareholders are to be settled in cash.

25. Other payables (cont'd)

Movement in provision for long service leave and retirement benefits are as follows :

	Group		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Balance at beginning of year	9,745	8,167	–	–
Currency realignment	(33)	(386)	–	–
Provision made during the year	718	1,964	–	–
Balance at end of year	10,430	9,745	–	–

Current and non-current other payables were denominated in the following currencies at the balance sheet date:

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Singapore Dollar	9,490	8,514	2,896	8,608
United States Dollar	1,916	944	15	73
Australian Dollar	23,843	22,771	–	223
Malaysian Ringgit	11,402	10,028	–	–
Chinese Renminbi	27,392	18,891	–	–
Others	2,997	2,284	7	23
	77,040	63,432	2,918	8,927

Included in current other payables as at 31 December 2006 are $6,892,000 (2005 : $7,559,000) relating to CFI group.

(b) Derivative financial instruments are as follows :

	2006		2005	
	Contract notional amount $'000	Fair value $'000	Contract notional amount $'000	Fair value $'000
Group				
Foreign currency contracts	29,335	1,372	3,310	–
Company				
Foreign currency contracts	28,350	1,372	–	–

25. Other payables (cont'd)

(b) Derivative financial instruments are as follows :

At 31 December 2006, the settlement dates on open foreign currency contracts ranged between 2 to 24 months :

	Group		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Contracts to deliver Singapore dollars and receive:				
United States Dollars	28,350	763	28,350	–
Australian Dollars	–	719	–	–
Other currencies	–	700	–	–
Contracts to deliver Japanese Yen and receive				
Australian Dollars	985	1,128	–	–
	29,335	3,310	28,350	–

26. Short-term borrowings

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Short-term bank loans :				
- unsecured	86,910	93,280	8,422	41,041
- secured	170,357	133,145	–	–
	257,267	226,425	8,422	41,041

The short-term bank loans bear effective interest rates ranging from 0.75% to 9.85% (2005 : 0.75% to 9.72%) per annum. The secured portion of the borrowings as at 31 December 2006 was charged on certain property, plant and equipment, inventories and current assets of the Group.

Short-term borrowings were denominated in the following currencies at the balance sheet date :

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Singapore Dollar	2,839	19,048	–	8,680
United States Dollar	92,379	63,744	–	13,968
Australian Dollar	26,476	31,337	–	8,289
Malaysian Ringgit	–	100	–	–
Chinese Renminbi	126,214	100,528	–	–
Others	9,359	11,668	8,422	10,104
	257,267	226,425	8,422	41,041

Included in short-term borrowings as at 31 December 2006 are $21,518,000 (2005 : $17,090,000) relating to CFI group.

27. Long-term loans and finance leases

	Effective interest rate %	Maturities	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Loans from banks :						
- Loan A	4.23	November 2008	30,000	30,000	30,000	30,000
- Loan B	4.23	Up till December 2008	42,000	37,000	42,000	37,000
- Loan C	6.19	Up till December 2008	27,594	29,934	27,594	29,934
- Loan D	6.89	Up till April 2008	23,600	47,541	–	–
- Other loans	9.58	Up till August 2008	5,880	18,625	–	–
Finance leases			3,377	2,184	–	–
			132,451	165,284	99,594	96,934
Less : Current portion			(46,169)	(31,636)	(29,198)	–
Non-current portion of loans			86,282	133,648	70,396	96,934

Loan A, denominated in Singapore Dollar, with fixed interest rate, is unsecured, bears interest at 4.23% (2005 : 4.23%) per annum and is repayable in November 2008.

Loan B, denominated in Singapore Dollar, with floating interest rate, is unsecured, bears interest at 4.23% (2005 : 4.13%) per annum and is repayable in 4 semi-annual instalments commencing from June 2007.

Loan C, denominated in United States Dollar, with floating interest rate, is unsecured, bears interest at 6.19% (2005 : 5.65%) per annum and is repayable in 4 instalments commencing from June 2007.

Loan D, denominated in Australian Dollar, with floating interest rate, bears interest at 6.89% (2005 : 6.65%) per annum and is 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 $55,844,000 (2005 : $56,074,000) and compliance with financial covenants.

Other loans, denominated mainly in Chinese Renminbi, with effective interest rates of 9.58% per annum, are secured on certain property, plant and equipment and current assets of the Group.

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

	Mimimium lease payments 2006 $'000	Present value of payments 2006 $'000	Mimimium lease payments 2005 $'000	Present value of payments 2005 $'000
Within one year	938	701	867	745
Between one and five years	3,091	2,676	1,587	1,439
Total minimum lease payments	4,029	3,377	2,454	2,184
Less : Amount representing finance charges	(652)	–	(270)	–
Present value of minimum lease payments	3,377	3,377	2,184	2,184

27. Long-term loans and finance leases (cont'd)

Effective interest rates on finance leases range from 5.00% to 9.25% (2005 : 4.37% to 9.48%) per annum. The finance leases do not contain any escalation clauses and do not provide for contingent rents. Lease terms do not contain restrictions on the Group activities concerning dividends, additional debts or entering into other leasing agreements. The carrying amounts of finance leases approximate their fair value.

Long-term loans and finance leases were denominated in the following currencies at the balance sheet date :

	Group		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Singapore Dollar	72,044	67,330	72,000	67,000
United States Dollar	27,594	29,934	27,594	29,934
Australian Dollar	26,831	49,169	–	–
Malaysian Ringgit	–	3,752	–	–
Chinese Renminbi	5,982	15,099	–	–
	132,451	165,284	99,594	96,934

Included in long-term loans and finance leases as at 31 December 2006 are $5,336,000 (2005 : $11,001,000) relating to CFI group.

28. Deferred taxation

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Balance at beginning of year	3,012	1,482	324	207
Currency realignment	(709)	145	–	–
Acquisition of subsidiary companies	–	153	–	–
Charged during the financial year	2,873	1,293	84	117
Under/(over) provision in prior years	384	(360)	–	–
Charged to equity	87	299	–	–
Balance at end of year	5,647	3,012	408	324
Represented by :				
- Deferred tax assets	(2,404)	(2,535)	–	–
- Deferred tax liabilities	8,051	5,547	408	324
	5,647	3,012	408	324

On 15 February 2007, the Singapore Government announced a revision in the Singapore corporate tax rate from 20% to 18%. In accordance with FRS 12, Income Taxes and FRS 10, Events After the Balance Sheet Date, this is a non-adjusting subsequent event and the financial effect of the reduced corporate tax rate will be reflected in the following financial year. A reduction in the corporate tax rate to 18% would reduce the provision for deferred tax of the Group and Company as at 31 December 2006 by $388,000 and $41,000, respectively.

28. Deferred taxation (cont'd)

The movements in the Group's deferred tax assets and liabilities during the year are as follows :

	Property, plant and equipment $'000	Employee benefits $'000	Tax losses carry-forward $'000	Fair value adjustments on biological assets $'000	Others $'000	Total $'000
Deferred tax assets						
At the beginning of the financial year	3,690	4,946	9,147	(14,696)	(552)	2,535
(Write-back)/credit to profit and loss account	(89)	201	238	(256)	(416)	(322)
(Over)/under provision in prior years	(51)	(11)	(87)	8	79	(62)
Charge to equity	–	–	–	–	(87)	(87)
Currency realignment	(17)	(18)	326	57	(8)	340
At the end of the financial year	3,533	5,118	9,624	(14,887)	(984)	2,404

	Property, plant and equipment $'000	Investment allowances $'000	Others $'000	Total $'000
Deferred tax liabilities				
At the beginning of the financial year	9,571	(4,774)	750	5,547
Charge/(write-back) to profit and loss account	52	1,852	647	2,551
Under provision in prior years	62	–	260	322
Currency realignment	(110)	63	(322)	(369)
At the end of the financial year	9,575	(2,859)	1,335	8,051

Included in deferred tax assets and liabilities as at 31 December 2006 are $32,000 (2005 : $34,000) and $277,000 (2005 : $291,000) respectively relating to CFI group.

The movements in the Company's deferred tax liabilities during the year are as follows :

	Earnings retained overseas $'000	Others $'000	Total $'000
At the beginning of the financial year	120	204	324
(Write-back)/charge to profit and loss account	(19)	103	84
At the end of the financial year	101	307	408

29. Share capital

	Group and Company 2006 $'000	2005 $'000
Issued and fully paid :		
Balance at beginning of year		
439,786,716 (2005 : 439,762,966) shares	175,915	175,905
Issued during the year		
9,870,000 (2005 : 23,750) shares	4,931	10
Transfer of share premium reserve to share capital	13,617	–
Balance at end of year		
449,656,716 (2005 : 439,786,716) shares	194,463	175,915

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

During the financial year :

(i) the Company issued 160,000 (2005 : 20,000) ordinary shares for cash at the average exercise price of $0.479 per share upon the exercise of 160,000 (2005 : 20,000) share options by employees pursuant to the QAF Limited Share Option Scheme 2000 ("2000 Scheme"); and

(ii) the Company issued 9,710,000 (2005 : 3,750) ordinary shares for cash at the exercise price of $0.50 per share upon the exercise of 9,710,000 (2005 : 3,750) warrants by holders of Warrants 2009.

Pursuant to a rights issue carried out in October 2004 and completed on 8 November 2004, 87,952,593 Rights Shares were issued at an issue price of $0.50 for each Rights Share on the basis of 1 Rights Share with 1 warrant ("Warrants 2009") for every 4 existing ordinary shares in the Company, each warrant carrying the right to subscribe for 1 ordinary share in the capital of the Company at the exercise price of $0.50 for each new share. A total of 87,952,593 Warrants 2009 were issued as a result of the rights issue on 17 November 2004. Warrants 2009 are valid for exercise within a period of 5 years commencing on and including the date of issue of the Warrants 2009. Warrants 2009 are listed and quoted on the SGX-ST. During the financial year, 9,710,000 ordinary shares in the Company were issued pursuant to the exercise by warrant holders. As at 31 December 2006, there were a total of 78,238,843 Warrants 2009 outstanding.

On 30 January 2006, in accordance with the Singapore Companies (Amendment) Act 2005, the concepts of "par value" and "authorised capital" were abolished and with effect from that date, the shares of the Company ceased to have a par value. In addition, the amount standing in the share premium reserve had become part of the Company's share capital.

30. Reserves

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Share premium	–	13,620	–	13,620
Fair value/revaluation reserve	2,353	2,138	–	–
Capital reserve	18,117	17,025	1,403	728
Revenue reserve	127,729	113,611	65,260	74,123
Foreign currency translation reserve	(1,877)	1,471	–	–
	146,322	147,865	66,663	88,471

	Company 2006 $'000	Company 2005 $'000
Analysis of movement in the reserves of the Company :		
Share premium		
At beginning of year	13,620	13,619
Premium arising on issuance of shares during the year	–	1
Expenses in relation to rights issues granted in prior years	(3)	–
Transfer of share premium reserve to share capital	(13,617)	–
At end of year	–	13,620
Capital reserve		
At beginning of year	728	330
Share options granted to employees and directors	675	398
At end of year	1,403	728
Revenue reserve		
At beginning of year	74,123	78,357
Net (loss)/profit for the year	(1,668)	2,802
Dividends	(7,195)	(7,036)
At end of year	65,260	74,123
Total	66,663	88,471

30. Reserves (cont'd)

Fair value/revaluation reserve

The fair value/revaluation reserve comprises surplus arising from the revaluation of property, plant and equipment by a subsidiary company as well as the cumulative fair value adjustments on available-for-sale financial assets until they are derecognised or impaired. In each financial year, an amount is transferred to the revenue reserve to match the additional depreciation charge on the revalued assets. Fair value/ revaluation reserve as at 31 December 2006 comprise of the following :

	Group	
	2006	2005
	$'000	$'000
Revaluation of property, plant and equipment	2,311	2,360
Fair value adjustment on financial instruments	42	(222)
	2,353	2,138

Capital reserve

Capital reserve of the Company comprise the cumulative value of services received from employees recorded on grant of equity-settled share options.

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

Capital reserve of the Group as at 31 December 2006 includes $1,403,000 (2005 : $728,000) relating to the cumulative value of services received from employees recorded on grant of equity-settled share options.

Foreign currency translation reserve

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

31. Dividends

	Group and Company 2006 $'000	Group and Company 2005 $'000
First and final dividend of 2 cents per share, less tax at 20% in respect of the financial year ended 31 December 2005	7,195	–
First and final dividend of 2 cents per share, less tax at 20% in respect of the financial year ended 31 December 2004	–	7,036

The Directors have proposed a first and final dividend of 2 cents per share, net of tax at 18%, amounting to $7,374,370 be paid in respect of the financial year ended 31 December 2006. 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.

32. Cash and cash equivalents

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

	Group 2006 $'000	Group 2005 $'000
Cash and bank balances (Note 16)	31,194	37,801
Fixed deposits with financial institutions (Note 16)	29,916	47,012
	61,110	84,813
Less : Fixed deposits pledged to banks as security for credit facilities granted to subsidiary companies	(8,869)	(14,855)
	52,241	69,958

33. Employee benefits

Share options

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

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

The exercise price of each share in respect of an option granted may be (i) the average of the last dealt prices of the shares of the Company, as determined by reference to the Financial News or other publication published by the Singapore Exchange Securities Trading Limited, for the three consecutive trading days immediately preceding the date of grant of that option ("Market Price") or (ii) at a discount not exceeding 20% of the Market Price but in any event no exercise price shall be less than $0.40 per share being the par value of an ordinary share in the Company immediately before the abolishment of the par value by the Singapore Companies (Amendments) Act 2005.

An option granted is valid for 10 years (unless otherwise terminated or lapsed pursuant to the rules as stipulated in the 2000 Scheme) and is exercisable, for an option granted without discount to the Market Price, after a vesting period of 1 year and for an option granted at a discount to the Market Price, after a vesting period of 2 years.

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

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

	No. of options in financial year 2006 '000	Weighted average exercise price in financial year 2006 $	No. of options in financial year 2005 '000	Weighted average exercise price in financial year 2005 $
Outstanding at beginning of year	12,175	0.536	9,350	0.545
Granted	4,165	0.565	3,405	0.513
Exercised	(160)	0.479	(20)	0.430
Lapsed/forfeited	(210)	0.554	(560)	0.541
Outstanding at end of year	15,970	0.544	12,175	0.536
Exercisable at end of year	11,890	0.537	8,790	0.545

(In Singapore dollars)

33. Employee benefits (cont'd)

The following table summarises information about options outstanding and exercisable as at 31 December 2006 to subscribe for ordinary shares in the Company :

	Outstanding		Exercisable		
	Number	Exercise price	Exercise period		Number
Offer date	of Options	per share	From	To	of Options
26.05.2000	1,860,000	$0.630	26.05.2001	25.05.2010	1,860,000
19.04.2001	838,000	$0.430	20.04.2002	19.04.2011	838,000
05.04.2002	2,432,000	$0.555	06.04.2003	05.04.2012	2,432,000
13.05.2004	3,430,000	$0.523	14.05.2005	13.05.2014	3,430,000
18.08.2005	3,330,000	$0.513	18.08.2006	17.08.2015	3,330,000
19.05.2006	4,080,000	$0.565	19.05.2007	18.05.2016	–
	15,970,000				11,890,000

The fair value of share options as at the date of grant is estimated using the binomial model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the years ended 31 December 2006 and 31 December 2005 are shown below :

	2006	2005
Dividend yield (%)	2.6	2.6
Expected volatility (%)	30.0	31.0
Risk-free interest rate (%)	3.2	2.9
Expected life of option (years)	6.6	6.6
Weighted average share price ($)	0.565	0.513

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

Up to 31 December 2006, the cumulative payment expenses recognised amounted to $1,403,000 (2005 : $728,000).

34. Commitments

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
(i) Capital commitments not provided for in the financial statements :				
Expenditure contracted for :				
- proposed expansion of manufacturing facilities	1,572	436	–	–
- others	21	260	21	8
	1,593	696	21	8
Approved by the directors but not contracted for	1,054	1,840	–	–
	2,647	2,536	21	8
(ii) Commitments to purchase bulk supplies of raw materials	21,855	4,834	–	–
(iii) Lease commitments payable - where a group company is a lessee				
Commitments under non-cancellable operating leases. The minimum lease payments are leases which expire :				
Within one year	5,444	4,847	49	46
Between one and five years	10,523	12,371	37	68
After five years	22,060	23,330	–	–
	38,027	40,548	86	114

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

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

35. Contingent liabilities (unsecured)

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Guarantees issued for bank facilities granted to subsidiary companies	–	–	239,609	202,925
Amounts utilised by subsidiaries as at balance sheet date	–	–	98,312	97,148

Included as at 31 December 2006 is a guarantee issued by the Company for the amount up to $10,000,000 for bank facilities granted to CFI. The facilities utilised by CFI amounted to $7,282,000 as at 31 December 2006.

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
(b) Claims by subsidiary companies' employee union and ex-employees via industrial court case	138	–	–	–
(c) Guarantees and indemnities given to third parties in connection with credit facilities				
- by CFI group's China subsidiary companies	14,400	–	–	–
- by another subsidiary company	23,128	35,977	–	–
	37,528	35,977	–	–
(d) Potential stamp duty payable in connection with acquisition of subsidiary company in prior year	–	511	–	–
(e) Claims by subsidiary companies' suppliers via civil suit	147	270	–	–

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

36. Related party transactions

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

	Group		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Purchases from associated and joint venture companies	4,445	14,165	–	–
Purchases from a related company of a director	–	46	–	–
Sales to associated and joint venture companies	9,958	17,739	–	–
Rental paid to a related company of a director	–	10	–	10
Rental paid to an associated company	214	209	–	–
Interest income from advances to associated and joint venture companies	416	452	–	–
Rental paid to a director	38	29	38	29
Other income from joint venture company	79	–	–	–
Management fees from subsidiary companies	–	–	1,177	1,146
Royalty income from subsidiary companies	–	–	11,498	10,698
Interest income from advances to subsidiary companies	–	–	5,813	3,951
Interest expense paid to a subsidiary company	–	–	–	155
Purchase of trademark from a subsidiary company	–	–	–	4,400

(b) Compensation of key management personnel

	Group	
	2006 $'000	2005 $'000
Fees and remuneration	2,444	2,045
Contribution to the Central Provident Fund	21	29
Share option expenses	134	105

37. 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 currency 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 functional 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 Company and certain of the subsidiary companies use foreign currency contracts with settlement period within 24 months from the year end to manage foreign currency exposures arising from normal trading activities. The outstanding foreign currency contracts are disclosed in Note 25(b).

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, Australia and China. 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 of 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.

37. 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

Management has determined that the carrying amounts of cash and short term deposits, current trade and other receivables, current trade and other payables, other liabilities, current bank loans and non-current floating rate loans based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

Unquoted shares stated at cost have no market prices and the fair value cannot be reliably measured using valuation techniques.

38. 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 affect 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 34(ii).

39. Segmental reporting

For management purposes, the Group is currently organised into five operating divisions - food manufacturing, bakery, primary production, trading and logistics and investments and others. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows :

Food manufacturing	-	Manufacture and distribution of food and beverages; manufacture and sale of fruit juice-concentrate
Bakery	-	Manufacture and distribution of bread, confectionery and bakery products
Primary production	-	Production, processing and marketing of meat; feedmilling and sale of animal feeds and related ingredients
Trading and logistics	-	Trading and distribution of food and beverage products and provision for warehousing logistics for food items
Investments and others	-	Investment holding and other activities

In addition, the financial information of its subsidiary company, CFI group, has been disclosed separately for additional information.

39. Segmental reporting (cont'd)

(a) Business segments

	Food manufacturing $'000	Bakery $'000	Primary production $'000	Trading and logistics $'000	Investments and others $'000	CFI group $'000	Eliminations $'000	Consolidated $'000
2006								
Revenue and expenses								
Revenue from external customers	202,893	256,124	280,892	100,136	3,940	132,289	–	976,274
Other revenue from external customers	711	2,015	4,016	141	3,164	3,757	–	13,804
Inter-segment revenue	2,981	11	18,737	442	12,551	690	(35,412)	–
	206,585	258,150	303,645	100,719	19,655	136,736	(35,412)	990,078
Unallocated revenue								1,969
Total revenue								992,047
Segment results	17,653	29,702	25,747	1,051	3,443	(4,756)	–	72,840
Unallocated revenue								1,969
Unallocated expenses								(9,292)
Profit from operating activities								65,517
Finance costs								(19,793)
Exceptional items								(19,687)
Share of profits of associated and joint venture companies								2,992
Profit before taxation								29,029
Taxation								(9,528)
Profit after taxation								19,501

39. Segmental reporting (cont'd)

(a) Business segments (cont'd)

	Food manufacturing $'000	Bakery $'000	Primary production $'000	Trading and logistics $'000	Investments and others $'000	CFI group $'000	Eliminations $'000	Consolidated $'000
2005								
Revenue and expenses								
Revenue from external customers	109,732	246,328	299,033	107,445	2,935	111,720	–	877,193
Other revenue from external customers	403	2,714	2,687	341	624	268	–	7,037
Inter-segment revenue	2,782	67	14,057	533	11,826	98	(29,363)	–
	112,917	249,109	315,777	108,319	15,385	112,086	(29,363)	884,230
Unallocated revenue								1,635
Total revenue								885,865
Segment results	3,159	29,847	14,991	218	(688)	(645)	–	46,882
Unallocated revenue								1,635
Unallocated expenses								(7,352)
Profit from operating activities								41,165
Finance costs								(13,807)
Exceptional items								(11,170)
Share of profits of associated and joint venture companies								1,476
Profit before taxation								17,664
Taxation								(6,290)
Profit after taxation								11,374

39. Segmental reporting (cont'd)

(a) Business segments (cont'd)

	Food manufacturing $'000	Bakery $'000	Primary production $'000	Trading and logistics $'000	Investments and others $'000	Sub-total $'000	CFI group $'000	Consolidated $'000
2006								
Assets and liabilities								
Segment assets	333,786	135,820	257,678	58,541	35,973	821,798	44,395	866,193
Associated and joint venture companies	12,151	2,249	4,597	44,860	–	63,857	–	63,857
Total assets	345,937	138,069	262,275	103,401	35,973	885,655	44,395	930,050
Deferred tax assets						2,372	32	2,404
Tax recoverable						526	28	554
Total assets per consolidated balance sheet						888,553	44,455	933,008
Segment liabilities	49,958	40,528	39,045	8,989	2,957	141,477	9,696	151,173
Provision for taxation						3,561	1,240	4,801
Deferred tax liabilities						7,774	277	8,051
Bank borrowings						359,531	26,810	386,341
Total liabilities per consolidated balance sheet						512,343	38,023	550,366
Other segment information								
Capital expenditure	17,001	7,400	5,770	1,261	320	31,752	3,577	35,329
Amortisation and depreciation	6,970	13,905	9,570	1,821	770	33,036	2,029	35,065
Impairment loss	–	–	6,437	–	1,800	8,237	11,905	20,142
Allowance for inventory obsolescence (written back)/ charged	(372)	(14)	647	458	–	719	660	1,379
Allowance for doubtful debts and debts written off	294	52	70	67	1	484	750	1,234

39. Segmental reporting (cont'd)

(a) Business segments (cont'd)

	Food manufacturing $'000	Bakery $'000	Primary production $'000	Trading and logistics $'000	Investments and others $'000	Sub-total $'000	CFI group $'000	Consolidated $'000
2005								
Assets and liabilities								
Segment assets	256,209	138,369	271,793	66,204	52,236	784,811	86,857	871,668
Associated and joint venture companies	19,361	2,255	4,113	42,857	–	68,586	–	68,586
Total assets	275,570	140,624	275,906	109,061	52,236	853,397	86,857	940,254
Deferred tax assets						2,501	34	2,535
Tax recoverable						216	-	216
Total assets per consolidated balance sheet						856,114	86,891	943,005
Segment liabilities	31,559	35,812	55,957	10,974	2,007	136,309	30,811	167,120
Provision for taxation						3,584	1,343	4,927
Deferred tax liabilities						5,256	291	5,547
Bank borrowings						361,764	27,761	389,525
Total liabilities per consolidated balance sheet						506,913	60,206	567,119
Other segment information								
Capital expenditure	7,314	7,104	3,914	735	4,967	24,034	1,191	25,225
Amortisation and depreciation	3,809	14,465	10,616	1,878	661	31,429	1,014	32,443
Impairment loss	–	–	603	–	4,722	5,325	–	5,325
Allowance for inventory obsolescence (written back)/ charged	(207)	89	474	856	–	1,212	–	1,212
Allowance for doubtful debts charged/ (written back) and debts written off/ (written back)	130	(48)	(96)	468	–	454	–	454

39. Segmental reporting (cont'd)

(b) Geographical segment

	Singapore $'000	Malaysia $'000	Australia $'000	Philippines $'000	China $'000	Other Countries $'000	CFI group $'000	Consolidated $'000
2006								
Revenue from external customers	154,345	151,036	320,302	53,306	13,764	161,279	136,046	990,078
Unallocated revenue								1,969
Total revenue	154,345	151,036	320,302	53,306	13,764	161,279	136,046	992,047
Segment assets	186,919	83,117	297,987	28,395	289,236	1	44,395	930,050
Capital expenditure	2,554	4,295	9,185	1,919	13,799	–	3,577	35,329
2005								
Revenue from external customers	159,420	152,554	331,248	46,689	5,261	77,070	111,988	884,230
Unallocated revenue								1,635
Total revenue	159,420	152,554	331,248	46,689	5,261	77,070	111,988	885,865
Segment assets	199,616	88,095	310,339	27,929	227,417	1	86,857	940,254
Capital expenditure	1,856	2,293	11,505	3,899	4,481	–	1,191	25,225

40. Subsidiary, associated and joint venture companies

(a) The subsidiary companies as at 31 December 2006 are :

	Name of company (Country of incorporation)	Principal activities (Place of business)	Cost 2006 $'000	Cost 2005 $'000	Percentage of equity held by the Group 2006 %	Percentage of equity held by the Group 2005 %
	Food manufacturing					
	Hengxing Fruit Juice (Singapore) Pte Ltd ❶ (Singapore)	Distribution agency of beverage products (Singapore)	+	+	100	100
	Ben Fortune Pastry Manufacturing (M) Sdn Bhd ❷ (Malaysia)	Manufacture and distribution of confectionery and pastry (Malaysia)	❖	❖	100	100
^	Shaanxi Hengxing Fruit Juice Co Ltd ❺ (People's Republic of China)	Manufacture and distribution of apple juice concentrate (People's Republic of China)	+	+	51	51
^	Shaanxi Hengxing Fruit Juice Co Ltd Heyang Plant ❺ (People's Republic of China)	Manufacture and trading of apple juice concentrate (People's Republic of China)	+	+	51	51
^	Zhongning Hengxing Fruit Juice Co Ltd ❺ (People's Republic of China)	Manufacture and trading of apple juice concentrate (People's Republic of China)	+	+	51	51
^	Yangling Hengxing Seeding Co Ltd ❺ (People's Republic of China)	Ownership and cultivation of saplings (People's Republic of China)	+	+	51	51
^	Linyi Hengxing Fruit Juice Co Ltd ❺ (People's Republic of China)	Manufacture and trading of apple juice concentrate (People's Republic of China)	+	+	51	51
^	Jingchuan Hengxing Fruit Juice Co Ltd ❺ (People's Republic of China)	Manufacture and trading of apple juice concentrate (People's Republic of China)	+	+	51	51

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

Name of company (Country of incorporation)	Principal activities (Place of business)	Cost 2006 $'000	Cost 2005 $'000	Percentage of equity held by the Group 2006 %	Percentage of equity held by the Group 2005 %
Food manufacturing (cont'd)					
^ Qixian Hengxing Fruit Juice Co Ltd ❺ (People's Republic of China)	Manufacture and trading of apple juice concentrate (People's Republic of China)	+	+	51	51
^ Chunhua Hengxing Fruit Juice Co Ltd ❺ (People's Republic of China)	Manufacture and trading of apple juice concentrate (People's Republic of China)	+	+	51	51
^ Meixian Hengxing Fruit Juice Co Ltd ❺ (People's Republic of China)	Manufacture and trading of apple juice concentrate (People's Republic of China)	+	–	51	–
Challenge Australian Dairy Pty Ltd ❻ (Australia)	Collection and sale of raw milk and the manufacture of dairy products (Australia)	+	+	51	51
Bakery					
Gardenia Foods (S) Pte Ltd ❶ (Singapore)	Bread manufacturer (Singapore)	5,516	5,516	100	100
Gardenia Bakeries (KL) Sdn Bhd ❷ (Malaysia)	Bread manufacturer (Malaysia)	+	+	70	70
Gardenia Sales & Distribution Sdn Bhd ❷ (Malaysia)	Marketing and distribution of bakery products (Malaysia)	+	+	70	70
Farmland Central Bakery (S) Pte Ltd ❶ (Singapore)	Purchasing agent of bread, confectionery and bakery products (Singapore)	500	500	100	100
Millif Industries Sdn Bhd ❷ (Malaysia)	Manufacture of kaya and related products (Malaysia)	360	360	65	65

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

Name of company (Country of incorporation)	Principal activities (Place of business)	Cost 2006 $'000	Cost 2005 $'000	Percentage of equity held by the Group 2006 %	Percentage of equity held by the Group 2005 %
Bakery (cont'd)					
Gardenia Bakeries (Philippines) Inc ❹ (Philippines)	Manufacture and distribution of bread, confectionery and bakery products (Philippines)	+	+	100	100
Delicia Sdn Bhd ❷ (Malaysia)	Manufacture of bread, confectionery and bakery products (Malaysia)	+	+	100	100
Bakers Maison Australia Pty Ltd ❻ (Australia)	Manufacture of confectionery and bakery products (Australia)	+	+	100	100
Primary production					
QAF Feeds Pty Ltd ❻ (Australia)	Manufacturing of stockfeed and sales and distribution of animal feed products (Australia)	+	+	100	100
QAF Meat Industries Pty Ltd ❻ (Australia)	Intensive pig production and wholesaling (Australia)	+	+	100	100
QAF Meat Processors Pty Ltd ❻ (Australia)	Pig slaughtering and meat boning (Australia)	+	+	100	100
Brooksbank Properties Pty Ltd ❻ (Australia)	Intensive pig production and wholesaling (Australia)	+	+	100	100
Fujian Dongjia Feeds Co Ltd ❺ (People's Republic of China)	Rental of premises (People's Republic of China)	+	+	100	100

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

	Name of company (Country of incorporation)	Principal activities (Place of business)	Cost 2006 $'000	Cost 2005 $'000	Percentage of equity held by the Group 2006 %	Percentage of equity held by the Group 2005 %
	Trading and logistics					
	Ben Foods (S) Pte Ltd ❶ (Singapore)	Trading and distribution of food and beverage products (Singapore)	14,204	14,204	100	100
@	Ben Foods (East Malaysia) Sdn Bhd ❷ (Malaysia)	Operation of supermarkets (Malaysia)	❖	❖	100	100
	Ben Trading (Malaysia) Sdn Bhd ❷ (Malaysia)	Trading and distribution of food and beverage products (Malaysia)	❖	❖	100	100
#	Spices International Pte Ltd (formerly known as Spices of the Orient Pte Ltd) (Singapore)	Manufacture and trading of spices (Singapore)	-	5,126	-	100
	Shinefoods Pte Ltd ❶ (Singapore)	Agency and distribution of food and beverage products (Singapore)	+	❖	100	100
	NCS Cold Stores (S) Pte Ltd ❶ (Singapore)	Operation of warehousing logistics (Singapore)	16,940	16,940	100	100
	QAF Fruits Cold Store Pte Ltd ❶ (Singapore)	Operation of cold storage warehouse (Singapore)	+	+	62	62
	Investments and others					
	Highwood Pte Ltd ❶ (Singapore)	Retail and sale of liquor, soft drinks, café and snacks (Singapore)	500	500	100	100
	Oxdale Dairy Enterprise Pty Ltd ❻ (Australia)	Milk production (Australia)	+	+	100	100
	QAF Management Services (S) Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	❖	❖	100	100

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

Name of company (Country of incorporation)	Principal activities (Place of business)	Cost 2006 $'000	Cost 2005 $'000	Percentage of equity held by the Group 2006 %	Percentage of equity held by the Group 2005 %
Investments and others (cont'd)					
QAF Agencies (S) Pte Ltd ❶ (Singapore)	Share trading and investment holding (Singapore)	❖	❖	100	100
Pemscorp Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	5,092	5,092	100	100
Oxdale International Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	12,500	12,500	100	100
Gardenia International (S) Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	7,993	7,993	100	100
Singfood Investment Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	❖	❖	100	100
Hamsdale International Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	50,005	50,005	100	100
Hamsdale Australia Pty Ltd ❻ (Australia)	Investment holding (Australia)	+	+	100	100
Camellia Bakeries (S) Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	+	+	100	100
Edenc International Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	❖	❖	100	100
Gardenia Investments Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	+	+	100	100
Oxdale Investments Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	+	+	100	100

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

	Name of company (Country of incorporation)	Principal activities (Place of business)	Cost 2006 $'000	Cost 2005 $'000	Percentage of equity held by the Group 2006 %	Percentage of equity held by the Group 2005 %
	Investments and others (cont'd)					
	W.A. Oxdale Holdings Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	+	+	100	100
	Bakers Maison Pty Ltd ❻ (Australia)	Investment holding (Australia)	+	+	100	100
✤	China Food Industries Limited ❶ (Singapore)	Investment holding (Singapore)	+	+	55	55
	Dongjia Investments Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	1,630	1,630	100	100
	Edenc Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	+	+	100	100
	Pacfi Pte Ltd ❶ (Singapore)	Investment holding (Singapore)	❖	❖	100	100
	Dormant corporations					
✻	Auspeak Holdings Pte Ltd (Singapore)	Dormant	❖	❖	100	100
✻	Bakers Maison Pte Ltd (Singapore)	Dormant	❖	❖	100	100
	Ben (Malaysia) Holdings Sdn Bhd ❷ (Malaysia)	Dormant	❖	❖	100	100
@	Gardenia Hong Kong Limited ❸ (Hong Kong)	Dormant	❖	❖	100	100
	Everyday Bakery and Confectionery Sdn Bhd ❷ (Malaysia)	Dormant	+	+	70	70

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

	Name of company (Country of incorporation)	Principal activities (Place of business)	Cost 2006 $'000	Cost 2005 $'000	Percentage of equity held by the Group 2006 %	Percentage of equity held by the Group 2005 %
	Dormant corporations (cont'd)					
	Bonjour Bakery Pte Ltd ❶ (Singapore)	Dormant	+	+	100	100
	Bonjour Bakery Sdn Bhd ❷ (Malaysia)	Dormant	+	+	100	100
	Summit Rainbow Sdn Bhd ❷ (Malaysia)	Dormant	+	+	100	100
	Bakers Maison Pastry (M) Sdn Bhd ❷ (Malaysia)	Dormant	+	+	100	100
#	Precious Fortune Limited (British Virgin Islands)	Dormant	-	❖	-	100
✻	Lansdale Holdings Pte Ltd (Singapore)	Dormant	❖	-	100	-
✻	Gaoyuan Pte Ltd (Singapore)	Dormant	+	-	100	-
			115,240	120,366		

Note

✻ Audit not required under the laws in the country of incorporation
^ Audited by Ernst & Young Hua Ming, China, for inclusion in the Group's consolidated financial statements
@ 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
✤ CFI, a public listed company, has three wholly owned subsidiary companies, namely :
(a) Shandong Xinquan Grain & Oil Co Ltd (placed under voluntary liquidation)
(b) Thye Seng Trading Company Private Limited
(c) Junan Hengxing Foodstuff Co Ltd (placed under voluntary liquidation)
\# Disposed/liquidated during the year

Audited by :

❶ Ernst & Young, Singapore
❷ Ernst & Young, Malaysia
❸ Ernst & Young, Hong Kong
❹ Sycip Gorres Velayo & Co, Philippines
❺ Ernst & Young Hua Ming, China
❻ Ernst & Young, Australia

(In Singapore dollars)

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

(b) The associated companies as at 31 December 2006 are :

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group 2006 %	2005 %
Philfoods Fresh-Baked Products Inc (Philippines)	Bread manufacturer (Philippines)	40	40
Phil Foods Properties Inc (Philippines)	Investment holding (Philippines)	40	40
PSC Corporation Ltd (Singapore)	Supply of provisions and household consumer products, and provision of management services to the Econ Minimart and I-Econ chain of stores (Singapore)	23	23
Zhongguo Jilong Limited (Singapore)	Production and sales of preserved and processed food products, peanut oil, beverages and freeze-dried food products (Singapore)	24	22

(c) The joint venture company as at 31 December 2006 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.

41. Disposal of subsidiary companies

Except as disclosed in Note 8, the disposal/liquidation of the following subsidiary companies did not have any significant effect on the revenue and results of the Group in the current financial year :

- Spices International Pte Ltd (formerly known as Spices of the Orient Pte Ltd)
- Precious Fortune Limited

42. Subsequent events

The following events took place subsequent to the financial year ended 31 December 2006:

(a) The Company proposed a distribution in specie of its shareholding interest held in the capital of PSC Corporation Ltd and Zhongguo Jilong Limited ("Jilong").

The distribution is conditional upon, inter alia, the confirmation from the Company's auditor that it has sufficient funds to effect the distribution and the approval of SGX-ST and the approval of the shareholders at an Extraordinary General Meeting to be convened in respect of the distribution.

(b) In addition to matters disclosed in Note 19, on 2 March 2007, Jilong had announced that as the company did not make payment of the sum demanded within the time stipulated in the letter of demand, the lending bank has filed a winding up petition against the company. The hearing for the winding up petition has been adjourned to 30 March 2007 at the High Court of Singapore. As at the date of issue of this financial statements, Jilong has not made an announcement on the status of the said winding up petition.

43. Comparative figures

Comparatives in these financial statements have been changed from the previous year due to the changes in accounting policies as described in Note 2 and prior year adjustments as described in Note 1(b), and to be consistent with current year's presentation.

	Group	
	As previously reported $'000	As restated $'000
Balance sheet		
Inventories	152,057	146,310
Trade receivables	116,929	111,428
Other receivables	42,388	40,452
Pension assets	–	1,260
Deferred tax assets	2,913	2,535
Deferred tax liabilities	10,321	5,547
Reserves	150,892	147,865
Minority interests	56,607	52,106
Profit and loss		
Exceptional items	2,014	(11,170)
Share of profits of associated and joint venture companies	1,825	1,476
Taxation	(4,914)	(6,290)
Profit after taxation attributable to shareholders of the Company	23,909	15,450
Profit/(loss) after taxation attributable to minority interests	2,374	(4,076)

44. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the directors on 30 March 2007.

List of Major Properties

The Group's major properties (excluding those of the public-listed subsidiary and associated companies) as at 31 December 2006 are:

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

List of Major Properties

The Group's major properties (excluding those of the public-listed subsidiary and associated companies) as at 31 December 2006 are:

Name of building/location	Description	Tenure of land
(b) Properties in Malaysia		
101-A, Lot PT 26 Pekan Desa Puchong Petaling Selangor Malaysia	Bakery and office premises	99-year lease from October 1997
(c) Properties in Australia		
Willow Grove Piggery Willow Grove Road Trafalgar, Victoria 3824	Piggery Farming	Freehold
Seville Piggery Beenak Road Seville, Victoria 3139	Piggery Farming	Freehold
Huntly Farm No. 1 and 2 Bendigo-Tennyson Road Huntly, Victoria 3351	Piggery Farming	Freehold
St. Arnaud Unit 1 Sunraysia Highway St. Arnaud, Victoria 3478	Piggery Farming	Freehold
St Arnaud Units 2 & 3 Nelson Road St Arnaud, Victoria 3478	Piggery Farming	Freehold
Gre Gre Piggery (Northern and Southern Property) Carrolls Bridge Road Gre Gre, Victoria 3478	Piggery Farming	Freehold
Corowa Piggery Hudsons Road, Corowa New South Wales 2646	Piggery Farming	Freehold
Bungowannah Piggery Howlong Road Bungowannah New South Wales	Piggery Farming	Freehold
Corowa Mill Albury Road, Corowa New South Wales 2646	Feedmilling	Freehold

List of Major Properties

The Group's major properties (excluding those of the public-listed subsidiary and associated companies) as at 31 December 2006 are:

Name of building/location	Description	Tenure of land
(c) Properties in Australia		
Balpool 1 & 2 Piggery Balpool Station Balpool Lane, Moulamein New South Wales 2733	Piggery Farming	Freehold
Bagshot Piggery 429 Clays Road Bagshot, Victoria 3551	Piggery Farming	Freehold
Diamond Valley Pork 13-15 Thomas Street Laverton, North Victoria	Abattoir	Freehold
Oxdale Dairy No. 1 RMB 2048 Parnell Road Cobram, Victoria 3644	Dairy Farming	Freehold
Oxdale Dairy No. 2 Murray Valley Highway Cobram, Victoria 3644	Dairy Farming	Freehold
Thomas Road Boyanup Factory Site	Dairy Manufacturing	Freehold
Collins Road Boyanup Effluent Block	Waste Disposal	Freehold
Roe Road Capel Factory Site	Dairy Manufacturing	Freehold
Gavins Road Capel Effluent Block	Waste Disposal	Freehold
(d) Properties in China		
Yuan Hong Industrial Park Fuqing, Fujian Province	Feed processing and office premises	50-year lease expiring 2050
Sanzhai Village Chenguan Town Mei County Shaanxi Province	Processing of concentrated apple juice	50-year lease from 1998
Team 3, Sanzhai Village Chengguan Town Mei County Shaanxi Province	Processing of concentrated apple juice	50-year lease from 2001

List of Major Properties

The Group's major properties (excluding those of the public-listed subsidiary and associated companies) as at 31 December 2006 are:

Name of building/location	Description	Tenure of land
(d) Properties in China		
Xihuan Road Heyang County Shaanxi Province	Processing of concentrated apple juice	50-year lease from 2000
Xihuan Road East Heyang County Shaanxi Province	Processing of concentrated apple juice	50-year lease from 2001
Xihuan Road East Heyang County Shaanxi Province	Processing of concentrated apple juice	50-year lease from 2005
Xihuan Road East Heyang County Shaanxi Province	Processing of concentrated apple juice	50-year lease from 2006
No. 7, Resident Team of Jingjiazhuo Village Linyi County Shaanxi Province	Processing of concentrated apple juice	50-year lease from 2003
Dadian Village, Dadian Town, Chunhua County Shaanxi Province	Processing of concentrated apple juice	50-year lease from 2003
East of Yingbin Dadao Zhongning County Ningxia Province	Processing of concentrated apple juice	50-year lease from 2005
Jingchuan Wenquan Economic Development Zone, Gansu Province	Processing of concentrated apple juice	50-year lease from 2004
North Circle East Road Qi County Shaanxi Province	Processing of concentrated apple juice	50-year lease from 2006
Chafang Jiziwan Fu County Shaanxi Province	Processing of concentrated apple juice	50-year lease from 2006
8th to 9th Floors Hi-Tech International Business Center, Xi'an City Shaanxi Province	Office use	45-year lease from 2006

Statistics of Shareholdings

As At 19 March 2007

Issued and Fully paid-up Capital	:	$194,462,947
Class of Shares	:	Ordinary Shares

Analysis of Shareholders by Size of Shareholdings

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	361	7.39	63,338	0.01
1,000 - 10,000	3,522	72.16	14,574,519	3.25
10,001 - 1,000,000	980	20.08	47,399,493	10.54
1,000,001 and above	18	0.37	387,619,366	86.20
	4,881	100.00	449,656,716	100.00

List of Twenty Largest Shareholders

S/No.	Name of Shareholder	No. of Shares	%
1.	Tian Wan Enterprises Company Limited	84,943,647	18.89
2.	Tian Wan Equities Company Limited	84,943,647	18.89
3.	Tian Wan Holdings Group Limited	84,943,646	18.89
4.	Citibank Nominees Singapore Pte Ltd	50,108,242	11.14
5.	Goi Seng Hui	24,909,750	5.54
6.	Andree Halim @Liem Sien Tjong @ Liem Sien Tjiong	11,359,000	2.53
7.	Oversea Chinese Bank Nominees Pte Ltd	8,000,000	1.78
8.	DBS Nominees Pte Ltd	7,558,350	1.68
9.	United Overseas Bank Nominees Pte Ltd	7,269,262	1.62
10.	CIMB Bank Nominees (S) Sdn Bhd	4,980,000	1.11
11.	HSBC (Singapore) Nominees Pte Ltd	3,764,466	0.84
12.	DBS Vickers Securities (Singapore) Pte Ltd	3,044,500	0.68
13.	OCBC Nominees Singapore Pte Ltd	2,842,754	0.63
14.	OCBC Securities Private Ltd	2,684,338	0.60
15.	Lee Fook Khuen	2,147,000	0.48
16.	Yee Seow Leng	1,500,000	0.33
17.	Phillip Securities Pte Ltd	1,370,764	0.30
18.	Tan Kong King	1,250,000	0.28
19.	Tan Siew Keng Christina	962,000	0.21
20.	Lee Kah Bao	915,000	0.20
		389,496,366	86.62

Statistics of Shareholdings

As At 19 March 2007

Substantial Shareholders

Substantial Shareholder	Direct Interest No. of Shares	%	Deemed Interest No. of Shares	%	Total Interest No. of Shares	%
Andree Halim	11,359,000	2.53	254,830,940[1]	56.67	266,189,940	59.20
Tian Wan Enterprises Company Limited	84,943,647	18.89	-	-	84,943,647	18.89
Tian Wan Equities Company Limited	84,943,647	18.89	-	-	84,943,647	18.89
Tian Wan Holdings Group Limited	84,943,646	18.89	-	-	84,943,646	18.89
Daniel Halim	-	-	84,943,647[2]	18.89	84,943,647	18.89
Didi Dawis	3,437,000	0.76	42,383,712[3]	9.43	45,820,712	10.19
Watford Investments Ltd	42,383,712	9.43	-	-	42,383,712	9.43
Saiman Ernawan	-	-	42,383,712(3)	9.43	42,383,712	9.43
Goi Seng Hui	24,909,750	5.54	-	-	24,909,750	5.54

Notes:

[1] Mr Andree Halim is deemed to have an interest in the shares beneficially owned by Tian Wan Enterprises Company Limited, Tian Wan Equities Company Limited and Tian Wan Holdings Group Limited pursuant to Section 7 of the Companies Act, Cap. 50.

[2] Mr Daniel Halim is deemed to have an interest in the shares beneficially owned by Tian Wan Enterprises Company Limited pursuant to Section 7 of the Companies Act, Cap. 50.

[3] Mr Didi Dawis and Mr Saiman Ernawan are deemed to have an interest in the shares beneficially owned by Watford Investments Ltd pursuant to Section 7 of the Companies Act, Cap. 50.

Statistics of Warrants

As At 19 March 2007

Analysis of Warrantholders by Size of Warrantholdings

Size of Warrantholdings	No. of Warrantholders	%	No. of Warrants	%
1 - 999	42	5.00	19,462	0.02
1,000 - 10,000	631	75.21	2,020,543	2.58
10,001 - 1,000,000	162	19.31	19,094,800	24.41
1,000,001 and above	4	0.48	57,104,038	72.99
	839	100.00	78,238,843	100.00

List of Twenty Largest Warrantholders

S/No.	Name of Warrantholder	No. of Warrants	%
1.	Andree Halim @Liem Sien Tjong @ Liem Sien Tjiong	47,452,538	60.65
2.	Goi Seng Hui	4,820,750	6.16
3.	OCBC Securities Private Ltd	3,039,250	3.88
4.	DBS Vickers Securities (Singapore) Pte Ltd	1,791,500	2.29
5.	Phillip Securities Pte Ltd	867,200	1.11
6.	Ng Hong William	650,000	0.83
7.	Tan Kong King	650,000	0.83
8.	Lim & Tan Securities Pte Ltd	643,500	0.82
9.	United Overseas Bank Nominees Pte Ltd	577,250	0.74
10.	Lee Chew Kwong	500,000	0.64
11.	Lee Kah Bao	500,000	0.64
12.	Ang Chee Kok	450,000	0.58
13.	Tan Kok Chi	419,000	0.54
14.	Toh Ong Tiam	416,000	0.53
15.	Merrill Lynch (Singapore) Pte Ltd	411,250	0.53
16.	Chua Keng Hiang	400,000	0.51
17.	Leong Hong Kah	400,000	0.51
18.	Kim Eng Securities Pte. Ltd.	389,250	0.50
19.	Koh Cheoh Liang Vincent	350,000	0.45
20.	Liew Seuk Eng	305,000	0.39
		65,032,488	83.13

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 27 April 2007 at 10.30 a.m. to transact the following business:

Ordinary Business

1. To receive and adopt the audited financial statements and the reports of the Directors and Auditors for the year ended 31 December 2006. **(Resolution 1)**

2. To declare a first and final dividend of 2 cents per share less income tax at 18% in respect of the year ended 31 December 2006. **(Resolution 2)**

3. To re-elect the following Directors:

   (a) Mr Didi Dawis (retiring under Article 104 of the Articles of Association) **(Resolution 3a)**

   (b) Mr Derek Cheong Kheng Beng (retiring under Article 104 of the Articles of Association) **(Resolution 3b)**

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

4. To approve Directors' fees of $145,200 for the year ended 31 December 2006 (2005: $145,200). **(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 shares 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 with registered addresses in Singapore (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 20% of the issued shares 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 shares shall be based on the issued shares 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; and

(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." **(Resolution 7)**

8. "That the Directors be and are hereby authorised to offer and grant share options and to allot and issue such number of shares as may be required to be issued pursuant to the exercise of share options in accordance with the terms and conditions of the QAF Limited Share Option Scheme 2000." **(Resolution 8)**

By Order of the Board

LEE WOAN LING (Ms)
Company Secretary

Singapore, 12 April 2007

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. He is also a substantial shareholder holding approximately 10.19% of the ordinary shares in the Company.

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

3(c) - Mr Phua Bah Lee is a non-executive Director and a member of the Audit Committee of the Company. He is also the chairman of the Nominating 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 and the chairman of the Nominating Committee upon re-election.

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

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

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

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

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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:

Name	Address	NRIC/Passport No.	Proportion of Shareholdings	
			No. of Shares	%

*and/or

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 27 April 2007 at 10.30 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 audited financial statements and reports thereon.		
2.	To declare a first and final dividend of 2 cents per share.		
3.	To re-elect Directors: (a) Mr Didi Dawis		
	(b) Mr Derek Cheong Kheng Beng		
	(c) Mr Phua Bah Lee		
4.	To approve Directors' fees.		
5.	To re-appoint Ernst & Young as Auditors of the Company.		
6.	To transact any other ordinary business of the Company.		
7.	General Authority to issue shares and/or convertible securities.		
8.	Authority to issue shares pursuant to the Share Option Scheme 2000.		

Signed this ______________ day of ______________ 2007 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. Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion of his shareholding to be represented by each proxy.
2. This Proxy Form must be signed by the appointor or his/her duly authorised attorney or, if the appointor is a body corporate, signed under its common seal or under the hand of its attorney or a duly authorised officer.
3. Please indicate with an 'X' in the appropriate box against each Resolution how you wish your proxy to vote. If this Proxy Form is returned without any indication as to how the proxy shall vote, the proxy will vote or abstains 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 in the box at the bottom left hand corner on the reverse of this form, the total number of Shares held by you. If you have Shares 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 Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares 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 Shares 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 Shares 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 Shares 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)

QAF Limited

150 South Bridge Road #09-04
Fook Hai Building Singapore 058727
Tel: (65) 6538 2866 Fax: (65) 6538 6866
Email: info@qaf.com.sg Website: www.qaf.com.sg