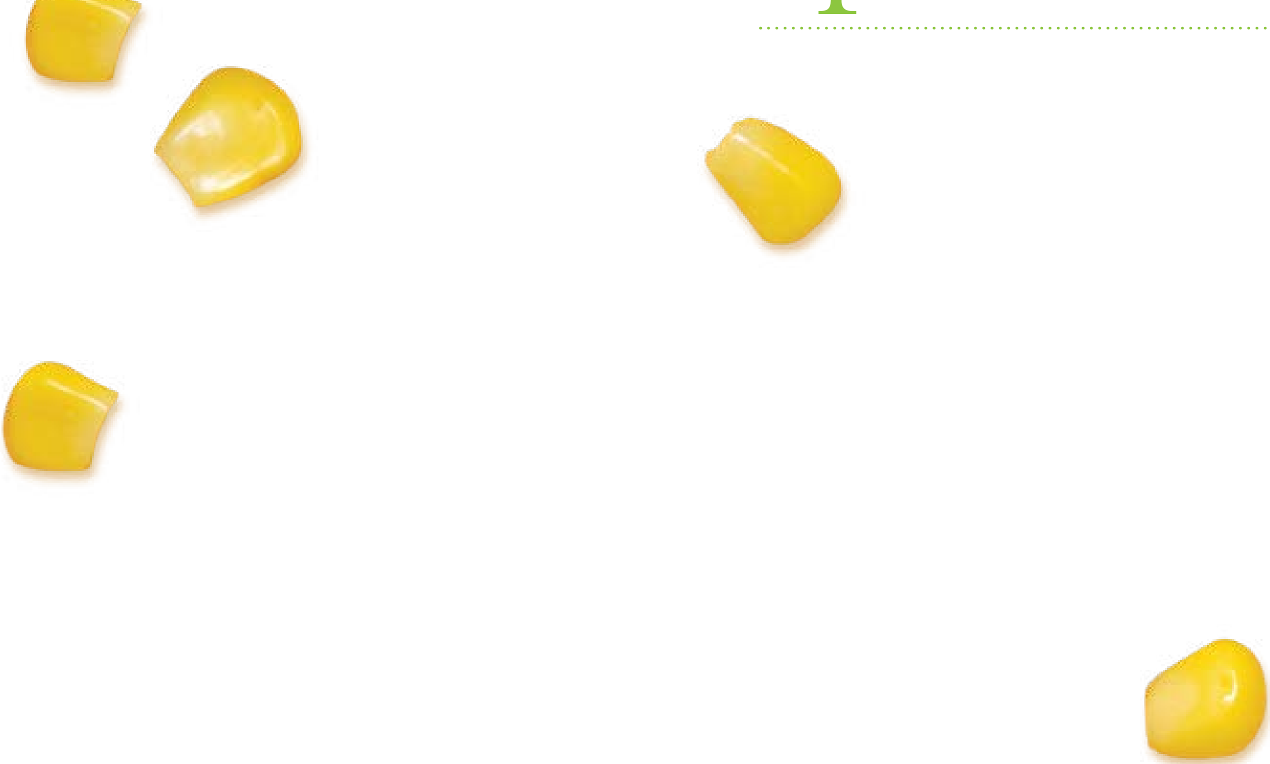
# structured to perform



**LUZHOU BIO-CHEM TECHNOLOGY LIMITED**
annual report 2008

# Contents

# Corporate Profile

## A 20 year track record of success

Established in 1988 and listed on the Main Board of the Singapore Exchange Securities Trading Limited in February 2006, Luzhou Bio-chem Technology Limited ("Luzhou") is a leading corn refiner and one of the largest producers of maltose-related products and other corn sweeteners in the People's Republic of China ("PRC").

## Huge annual production capacity

Luzhou has strategically increased its production capacity by 60% since 2006, and currently maintains a total production capacity of 1,040,000 tonnes per annum through six production facilities in the PRC. These include two production facilities in Yishui, Shandong Province, and one each in Fushun, Liaoning Province, Xingping, Shaanxi Province, Xiping, Henan Province and Pengshan, Sichuan Province. These facilities operate with their own water resources and several also have their own power-generating capabilities. With one exception, all of them straddle key corn producing provinces in China to ensure easy access to ample and competitively priced raw materials. Luzhou has also expanded its range of higher value-added products to include sugar alcohol, corn oil and amino acids.

## Solid business capabilities

Luzhou's competitive edge lies in its capable management, its strong research and product development capabilities, strong corporate branding and, most importantly, good quality corn products. These are used by its domestic and overseas customers as additives or ingredients in the manufacture of their own products.

## Strong customer base

Luzhou serves a diverse customer base across multiple industries, among them customers in the food and beverage, fermentation, medical and pharmaceutical sectors. Through higher capacity production and plant utilisation, it is able to assure its customers of reliable and cost effective solutions. Some of its customers include Tsingtao Brewery Co., Ltd (青岛啤酒股份有限公司), Hubei Wangwang Food Co., Ltd (湖北旺旺食品有限公司), United Laboratory (Chengdu) Co., Ltd (联邦制药（成都) 有限公司), Henan Lian Hua Tian An Food Co., Ltd. (河南莲花天安食业有限公司) and Henan Lian Hua Weijing Co., Ltd (河南莲花味精股份有限公司).

# sweet beginnings

Harnessing more than 20 years of success in the F&B industry has put Luzhou Bio-chem Technology Limited on the forefront of production efficiency and innovation in the area of corn refining. Drawing on this experience and expertise, the company has leveraged the capabilities and competencies it has built up over the years to reaffirm its position as a premium supplier of corn sweeteners and other corn related products in China.

# Managing Director's Message

## Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the results of Luzhou Bio-chem Technology Limited for the year ended 31 December 2008 ("FY2008").

## Overview

FY2008 was a very challenging year for Luzhou Bio-chem Technology Limited. For the financial year in review, the Group endured several circumstances beyond our control that had a direct bearing on our financial performance for the year. This was further exacerbated by the impact of the global financial crisis towards the end of the year, with market conditions becoming unfavourable and general demand for products remaining stagnant.

However, the Group continued to explore new applications for our products, and invested in research and development ("R&D") to build a higher value creation into our product mix. We are currently increasing our capacity utilizations for our corn oil and sugar alcohol, products that we expect will help us maintain our competitive edge despite the prevailing market conditions.

# Managing Director's Message



## Financials

The Group recorded a 19.2% rise in total revenue to RMB2.6 billion, driven by stronger sales across all our products. This was accompanied by profit after tax of RMB1.3 million, down from the RMB54.5 million we posted in FY2007, as a result of a significant decline in profit margins as well as higher overall operating and finance costs. Earnings per share decreased from RMB14.3 cents in FY2007 to RMB0.4 cents in FY2008 while net asset value backing per share as at 31 December 2008 decreased from RMB125.4 cents to RMB117.2 cents. As at 31 December 2008, the Group's cash and bank balances stood at RMB104.4 million.

## Year in Review

In the first quarter of the year, we faced power supply disruptions in our corn refining business due to severe weather conditions in China. We also saw the temporary closure of our Sichuan plant during the year as a precautionary measure immediately following the Sichuan earthquake, and experienced supply disruption as a result of the 2008 Beijing Olympics, the impact of which resulted in escalating prices of our non-corn raw materials like coal.

The Group's business operations were also affected by the melamine-tainted dairy products scare which affected global confidence in many food-related China exports. In our case, the impact on China farm produce directly affected the sales of our by-products, a large portion of which is used by manufacturers of animal feed.

This fallout, together with uncertainties arising from the global financial crisis, affected our sales of corn sweeteners to the food and beverage ("F&B") sector where overall consumption of this sector weakened due to product fears and reduced spending. Consequently, many of our customers in F&B manufacturing also cut back on their inventories, thereby reducing demand for our products further. Overseas corn prices fell drastically, making it less feasible for us to market our corn products internationally. On the domestic market, the weak market sentiment also resulted in higher price competition which was matched by a corresponding fall in product prices, especially for by-products.

On the positive side, we continued to explore new applications for our products, especially in non-F&B related sectors such as pharmaceuticals, chemicals and construction. We are also increasingly optimistic about our capacity expansion into animal feeds and our diversification into higher value products such as corn oil derived from corn germ, as well as sugar alcohol for which we have already completed the second phase of production capacity expansion. We have also ventured into producing amino acids and expect our new 300 tonnes per annum amino acid facility to be operational in the second quarter of this financial year.

In FY2008, the Group actively pursued and secured new territories for its products in global markets such as Eastern Europe, South America and Africa. Within China itself, we are continuously exploring and expanding our geographical reach. These efforts have enabled us to improve sales of our products and maintain our competitive edge.

## Corporate matters

During the year, the Group entered into a conditional joint venture agreement with Wuhan Jiabao Sugar Co., Ltd to invest in certain assets in the latter. However, due to non-fulfillment of conditions on the part of the vendor, the agreement was aborted. We also entered into a joint venture partnership with Beijing Qingfa Bio-Technology Center to facilitate the development of our amino acid production facility, and will continue to explore such strategic alliances to strengthen our marketing scope especially in Southern PRC.

## Outlook

The ongoing global financial crisis is expected to continue to dampen market sentiment, thereby raising market uncertainty further. However, the Group will continue to stay vigilant to business and market opportunities. For one, the market potential for corn refiners remain huge due to their products' application in both conventional and alternative uses. Corn refiners' production processes are developed through an extensive product chain, making it relatively easier to upgrade to higher value products, a strategy the Group will continue to adopt where possible.

The China government's initiative to stimulate the country's economy through stronger consumption growth is a positive step for the Group, as the rising cane sugar prices in China, as a consequence of the substitution effect, will improve demand for our corn sweeteners. We are also optimistic that the Group will see fewer destabilising factors as compared to what we experienced in FY2008.

Concurrently, we will continue to stay alert to the market situation, streamlining our processes and leveraging technology advancements in our production process to mitigate possible business risks. We will also explore both vertical and lateral integration through possible strategic partnerships, mergers and acquisitions in order to expand both our business and geographical scope. Together with our higher value added product mix, these initiatives are expected to help sustain our competitive edge in these trying times.

## Appreciation

Last but not least, I would like, on behalf of our Board of Directors, to thank all shareholders, customers and associates, as well as our management and staff, for their support of the Group over the last year. We look forward to your continued support even as we endeavor to meet the challenges and steer the Group forward in the year ahead.

**Mr Niu Ji Xing**
Managing Director

# 董事经理致辞

## 尊敬的各位股东

我很高兴代表董事会向各位呈交鲁洲生物科技有限公司2008财年业绩。

## 概述

对鲁洲生物科技有限公司而言，2008年是充满挑战的一年。在2008年集团经历了几个非人力所能控制的恶劣环境，直接影响了我们的08年财务业绩。全球性金融危机进一步恶化了我们的业绩，市场条件对我们越来越不利，同时总体产品需求低弥。

尽管如此，集团继续研究产品的新应用，大力研发高附加值产品，优化我们的产品组合。目前，我们正逐步提高玉米油及糖醇的产能利用率，我们预计这些产品将有助于我们在当前低弥的市场条件下保持我们的竞争优势。

## 财务状况

受我集团各种产品销售额提高的驱动，去年集团销售收入总额提高了19.2%，达人民币26亿元。但是，由于利润率的大幅下跌以及受整体营业费用和财务费用较高的影响，集团税后利润仅人民币1.3百万元，比2007年的人民币54.5百万元有大幅度下滑。每股收益从2007年的人民币14.3分下降到2008年的人民币0.4分，同时，截至2008年12月31日，每股有形资产净值从人民币125.4分下降到人民币117.2分。截至2008年12月31日，集团现金及银行存款余额为人民币104.4百万元。

## 回顾2008

在第一季度，受中国恶劣天气的影响，我们的玉米加工工厂遭遇到电力供给中断，并导致生产暂停。我们的四川工厂也曾在四川大地震发生后为确保生产安全而暂时停产，此外，2008年北京奥运会曾导致供给中断，以致我们的非玉米原料价格上涨，如“煤”。

三聚氰胺奶制品事件影响了全球消费者对许多相关中国出口食品类产品的信心，集团经营也遭此负面影响。对我们而言，此事件不但直接影响了中国农产品，也间接影响了我集团副产品的销售，因为大部分副产品是被用于动物饲料生产的。

这些负面影响连同全球性金融危机产生的不确定性影响了我们的玉米淀粉糖产品在食品和饮料行业的销售量，这两个行业对淀粉糖类产品的总消耗量因产品恐慌和消费者购买力的下降而下降。结果是，我们许多食品和饮料加工行业客户也大大削减库存，以致它们对我集团产品的需求随之减少。海外玉米价格大幅下降，不利于我们玉米产品的国际销售。在国内市场上，较弱的市场情绪导致激烈的价格竞争，进而导致产品价格相应下降，尤其是副产品。

积极的一面是，我们继续探究产品的新应用，尤其是在食品和饮料相关行业之外的应用，如医药、化学制品和建筑。我们对动物饲料产能扩张和生产高附加值产品的多样化策略充满信心，如用玉米胚芽生产玉米油、生产糖醇，目前糖醇第二阶段产能扩张已经完成。另外，我们开始投资生产氨基酸产品，预计年产300吨的新建氨基酸工厂将在本年第二季度开始运营。

在2008年，集团积极开发和巩固我们的海外市场版图，如东欧、南美洲和亚洲。在国内，我们继续开发和扩张我们的地理覆盖面。这些努力使我们提高了产品销售额、维持了我们的竞争优势。

## 公司事务

在08年期间，集团与武汉佳宝糖业有限公司签署了一份有条件合资协议，稍后买进武汉佳宝的部分资产。但是，由于卖方未履行协议中的某些条款，合资最终失败。同时，我们也与北京轻发生物科技中心 (Beijing Qingfa Bio-Technology Center) 签署了一份合资协议，以便促进氨基酸生产工厂的发展，我们也将继续探寻此类战略联合，以巩固我们的销售市场范围，尤其是在华南地区的市场。

## 前景

持续存在的全球性金融危机预计会继续降低市场情绪，从而进一步提高市场的不确定性。尽管如此，集团会继续对业务经营和产生的市场机会保持警惕，譬如，对玉米加工商而言，玉米淀粉的市场潜力依然很大，因为它们在传统应用和替代应用方面的使用量很高。通过产品链的不断扩张，玉米加工商的生产流程得到了发展提高，使之可以较容易的实现向高附加值产品的升级，这也正是集团一直采用的策略。

中国政府通过提高内部消费增长率刺激国家经济的激励措施是有利于集团发展的，比如，根据替代效应原理，国家不断提高中国蔗糖价格时将会使玉米淀粉糖的市场需求增加。同时，我们相信，集团以后面临的不稳定因素会比2008年所经历的要少。

目前，我们将继续警惕市场动态、不断优化业务流程，并继续将科技进步成果应用于我们的生产过程，以减小经营风险。同时，我们会通过战略合作和并购实现横向和纵向整合，扩大我们的经营业务和地理范围。这些积极举措加上我们的高附加值产品组合预期有助于集团在这种非常时期保持其竞争优势。

## 感谢语

最后，我代表董事会感谢所有股东、客户和关联人士以及我们的管理层和员工在过去一年对集团发展的大力支持。我们期待您的继续支持，共同迎接挑战，推动集团不断向前发展。

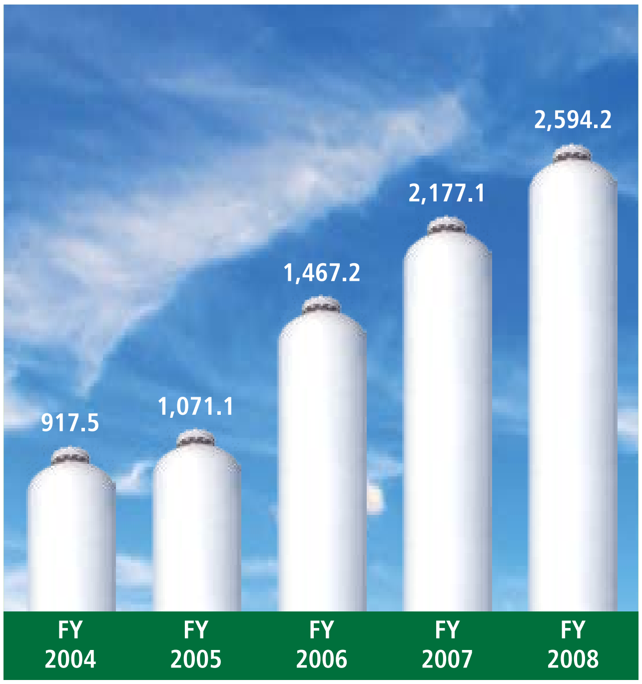
**牛继星先生**
董事经理

# Financial Highlights

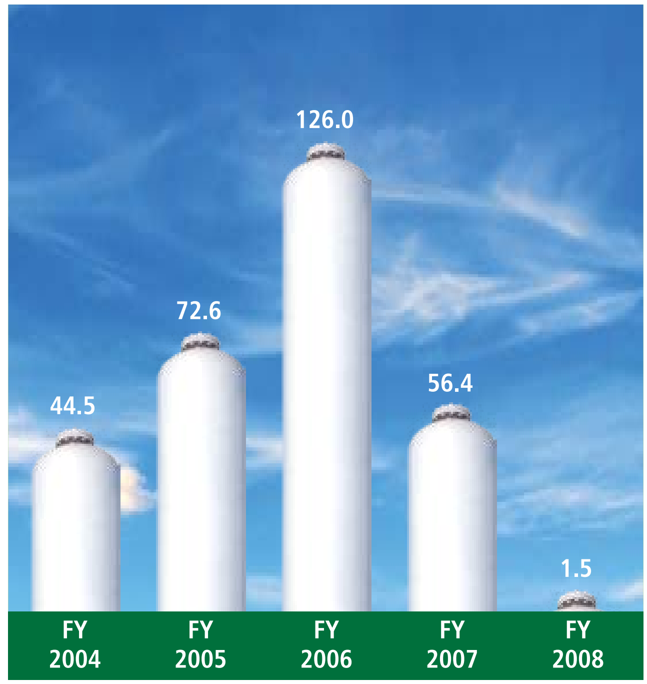


| | *Audited* 2008 RMB million | *Audited* 2007 RMB million | *Audited* 2006 RMB million | *Audited* 2005 RMB million | Proforma 2004 RMB million |
|---|---|---|---|---|---|
| **Revenue** | 2,594.2 | 2,177.1 | 1,467.2 | 1,071.1 | 917.5 |
| **Earnings Before Interests, Tax, Depreciation and Amortisation ("EBITDA")** | 110.5 | 153.0 | 178.6 | 106.4 | 70.4 |
| **Net Profit Before Tax** | 1.3 | 54.9 | 126.8 | 72.6 | 44.5 |
| **Net Profit After Tax and Minority Interest ("PATMI")** | 1.5 | 56.4 | 126.0 | 72.6 | 44.5 |
| **Net Profit Margin (%)** | 0.05 | 2.6 | 8.6 | 6.8 | 4.9 |
| **Revenue by Business Segments (%)** | | | | | |
| **- Sweeteners** | 63.0 | 70.6 | 68.9 | 65.1 | 60.3 |
| **- Corn Starch** | 8.3 | 7.2 | 13.2 | 15.6 | 15.9 |
| **- By-products and Others** | 23.0 | 22.2 | 17.9 | 19.3 | 23.8 |
| **- Animal Feeds** | 5.1 | – | – | – | – |
| **- Corn Oil** | 0.6 | – | – | – | – |
| | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| **Revenue by Geographical Segments (%)** | | | | | |
| **- PRC** | 87.1 | 87.0 | 86.8 | 87.3 | 92.4 |
| **- Other Countries** | 12.9 | 13.0 | 13.2 | 12.7 | 7.6 |
| | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| **At Year End (RMB million)** | | | | | |
| **Net Current Assets** | (5.4) | 114.6 | 78.4 | 14.6 | (70.6) |
| **Total Assets** | 1,319.4 | 1,268.3 | 956.6 | 478.3 | 296.1 |
| **Total Equity** | 511.8 | 530.3 | 336.9 | 114.0 | 40.4 |
| **Total Liabilities** | 807.6 | 738.0 | 619.7 | 364.3 | 255.7 |
| **Cash and Cash Equivalents** | 104.4 | 75.4 | 77.8 | 94.3 | 34.6 |
| **Per Share (RMB cents)** | | | | | |
| **Earnings per Share** | 0.4 | 14.3 | 36.6 | 27.9 | 17.1 |
| **Net Tangible Asset per Ordinary Share** | 117.2 | 125.4 | 93.6 | 43.8 | 15.6 |
| **Dividend per Share** | – | 6.8 | 6.8 | 4.1 | – |
| **Returns (%)** | | | | | |
| **Return on Revenue** | 0.05 | 2.6 | 8.6 | 6.8 | 4.9 |
| **Return on Shareholders' Equity** | 0.25 | 10.6 | 37.4 | 63.7 | 110.1 |
| **Return on Total Assets** | 0.10 | 4.4 | 13.2 | 15.2 | 15.0 |
| **Ratios** | | | | | |
| **- Inventory Turnover** | 31 | 44 | 42 | 28 | 21 |
| **- Trade Receivables** | 17 | 15 | 12 | 11 | 9 |
| **- Trade Payables** | 25 | 27 | 32 | 37 | 30 |
| **- Debt to Equity Ratio (Times)** | 0.96 | 0.8 | 1.0 | 1.6 | 2.6 |

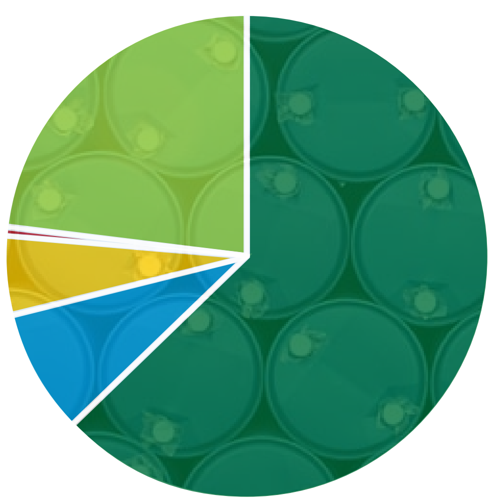
## Revenue
(RMB Million)




## Net Profit After Tax and Minority Interest
(RMB Million)



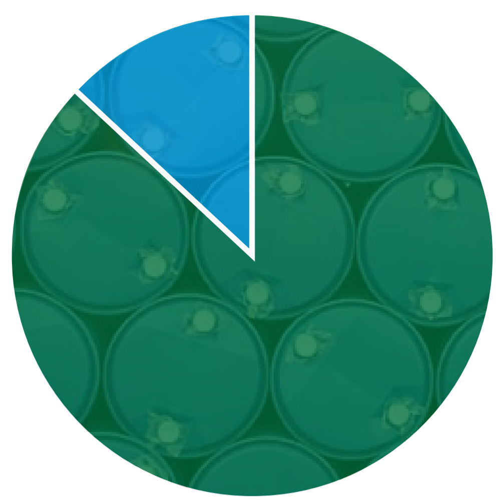

## Revenue by Business Segments



FY 2008

- Sweeteners (63.0%)
- Corn Starch (8.3%)
- Animal Feeds (5.1%)
- Corn Oil (0.6%)
- By-product and Others (23.0%)

## Revenue by Geographical Segments



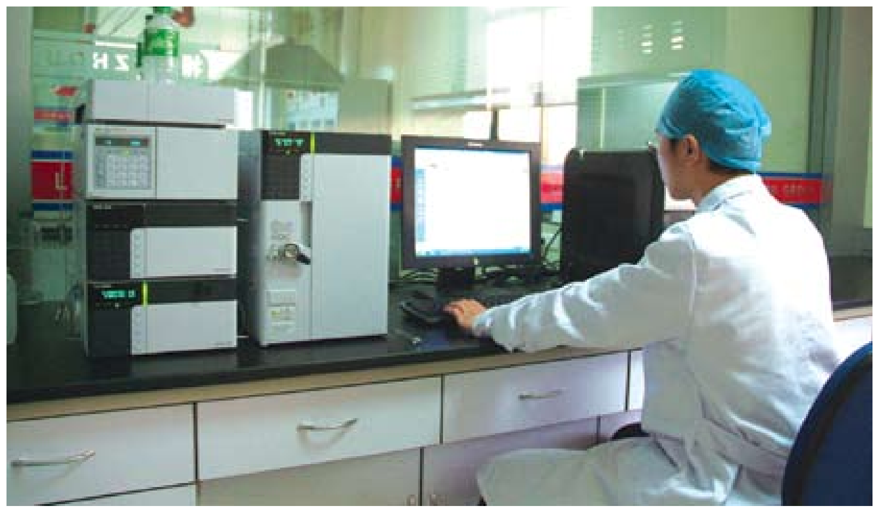
FY 2008

- PRC (87.1%)
- Other Countries (12.9%)

# enhancing growth

The Group's growth initiatives are fourfold. It will actively seek new applications for its existing products across multiple sectors; it will continue to diversify its product mix to include higher value-added applications; it will stay vigilant to new partnerships and markets it can capitalise on; and it will optimise resources, streamline operations and minimise costs to stay on the leading edge.

# Operations Review



The impact of the global financial crisis resulted in a gloomy shadow being cast over many Asian economies in the last quarter of the financial year ended 31 December 2008. Many businesses which achieved modest gains in the first three quarters saw their growth eroded as significant demand and margin pressures began to take their toll.

## Overall performance

Similarly, although we saw revenues for the year increased by 19.2% to RMB2.6 billion for FY2008, for reasons of higher operating and finance costs accompanying the increase in turnover, coupled with lower overall margins as a result of high raw material prices without corresponding increases in product selling prices, our profit after taxation for the year decreased to RMB1.3 million, from RMB54.5 million in FY2007.

On a quarter by quarter basis, we experienced a decline in both sales volume and selling prices in the last quarter of the year largely due to the global financial crisis and the loss of consumer confidence brought on by the melamine-tainted dairy products scare in the PRC. However, for FY2008 in general, we enjoyed revenue expansion across all our product segments. Our sales of corn sweeteners and corn starch segments increased 6.3% and 37.1% respectively while sales of by products rose 23.4 %. Our food and beverage ("F&B") revenue grew 13.3%, and revenue from other industries like animal feeds rose 55.3%.

Concurrently, our overall export revenue increased by 18.1% for FY2008 and accounted for approximately 12.9% of our Group revenue. This was despite facing pricing pressures for our exports in the later half of the year as a result of lower corn prices in the international market.

## Business scope

The Group's resilience in the face of the worsening global economy was attributed to two key factors, namely our capacity expansion initiatives, and a focus on improving our product mix to deliver higher value products with the potential for higher margins.

In total, we raised our production capacity of corn sweeteners from 990,000 tonnes in FY2007 to 1,040,000 tonnes in FY2008. We also enhanced value creation within our product mix by diversifying into higher value products such as corn oil which we derive from our corn germ and sugar alcohol. For the year in review, we increased our production capacities of these products in our new production facility in Yishui, Shandong Province. Currently, this facility has the capacity to produce 90,000 tonnes of sugar alcohol and 30,000 tonnes of corn oil in addition to 180,000 tonnes of animal feed per year. We are also set to launch a new amino acid facility, which will be able to produce 300 tonnes of amino acids per year.

To support our expansion, we have stepped up efforts to improve technology and automation across our production processes. Among other things, we have, to date, already installed new thermoelectricity generators in both our Liaoning and Shaanxi plants. These will help us to streamline our operating costs through better electricity utilisation, thereby helping us to make our production operations more efficient and productive.

## Challenges

Apart from the debilitating effects of the global financial crisis and the melamine-tainted food scandal, the Group faces several other potential challenges going forward, among them, the substitution effect of cane sugar with corn sweeteners like glucose and fructose. China's cane sugar prices are slowly rebounding and are expected to recover even further in 2009 due to supply and demand

imbalance. This bodes well for the Group as demand and prices for our corn sweeteners are expected to improve in tandem.

We expect the price of corn, our main raw material and a major determinant in our cost of production, to stay relatively firmer compared with the fourth quarter of FY2008 as a result of the China government's recently announced plan to stockpile corn in 2009. However, on a year by year basis, we expect the price to be lower than last year's average price, thus improving our potential for greater profitability.

## Looking ahead

Luzhou Bio-chem Technology has taken proactive steps to improve its domestic and overseas marketing efforts and enhance sales of its corn sweeteners and other products. It will also continue to keep a lookout for strategic alliances and reliable partnerships through which it will be able to enhance its business and geographical scope. At the same time, we will reinforce our economic and market awareness through in-depth research that will help us stay in tune with all current economic situation and market trends. With these initiatives in place and barring unforeseen circumstances, the Group expects to improve the quality of its earnings in FY2009.

# widespread potential

Luzhou's corn sweeteners and related products have immense applications in both conventional and alternative uses. Traditionally used to sweeten and enhance food and drinks, they are also used in health beverages and non-sugar foods as a healthier substitute to cane sugar. New innovative developments are also seeing them increasingly used in non-F&B applications such as pharmaceuticals, textiles and construction materials.

# Group Structure


*The paid up share capital of Luzhou Bio-chem Technology (Sichuan) Co., Ltd is RMB 96.0m, of which the Company holds 37.2% (RMB 35.7m) and Luzhou Bio-chem Technology (Shandong) Co., Ltd holds 25.3% (RMB 24.3m).*

# Products & Applications

## Niu Ji Xing

Niu Ji Xing is our Founder and Managing Director. He is responsible for formulating the business strategies and investments of our Group, as well as for its overall management. Mr. Niu has more than 10 years of experience in the corn refining industry in PRC. Prior to joining our Group, he was the Board Chairman of the Shandong Luzhou Food Group of China, which comprises a group of enterprises including Shandong Luzhou, Liaoning Luzhou, Shaanxi Luzhou and Hunan Taoyuan. He obtained a certificate in Economic Management (经济管理专业) from the Shandong Economic Management Institute (山东经济管理干部学院) in July 1996. He is presently the Vice Director of the CFIA, standing Director of the China Food Industry Association (中国食品工业协会), Vice Chairman of the 4th Council of China Food Industry Association (sweeteners) (中国食品工业协会糖果专业委员会第四届理事会) and a member of the National Food Industry Enterpreneurs'Council (全国食品工业企业家委员会).

## Gao Zhong Fa

Gao Zhong Fa is our Executive Director and Group General Manager. Mr. Gao is responsible for the overall business operations and the day-to-day management of our Group. He has more than 15 years of experience in the food industry, particularly in the area of operations in food product factories. Prior to joining our Group, he had joined Shandong Luzhou in May 2002 as the general manager and was also previously a General Manager at Shandong Luzhou Food Product Pte. Ltd. from 2001 to 2002. From 1993 to 2000, he was factory operations manager at Shandong Yishui Luzhou Food Product Pte. Ltd. and prior to that, the factory operations manager at Shandong Yishui Jixing Confectionery Factory from 1988 to 1993, and the operations manager at Shandong Shouguang Gaojia Food Product Pte. Ltd. from 1985 to 1988.

Gao Zhong Fa obtained a certificate in Economic Management (经济管理专业) studies from the Shandong Economic Management Institution (山东经济管理干部学院) in July 1996. He is also a committee member of the Shandong Linyi Political Consultative Conference (山东省临沂市政治协商会议) and is recognised as a contributor to the National Food Product Advanced Management of Science and Technology (全国食品工业技术先进技术管理工作者).

## Wang De You

Wang De You is our Executive Director and Group Deputy General Manager (Production, Research and Development). Mr. Wang has more than 15 years of experience in the food processing and manufacturing industry and was formerly an assistant general manager at Shandong Luzhou before joining our Group. Mr. Wang was also a deputy general manager at Shandong Luzhou Food Product Factory from 1998 to 2002, a production manager at Shandong Yishui Luzhou Food Product Factory from 1993 to 1999, a production manager at Shandong Yishui Jixing Confectionery Factory from 1990 to 1993 and an assistant factory manager at Shandong Linqu Dairy Product Factory from 1987 to 1990.

Wang De You obtained a certificate in Food Processing and Manufacturing（发酵工程专业) studies from Shandong University (山东大学) in July 1996. He is presently the Vice Chairman of the CFIA (starch confectionery branch), standing Director of the CFIA and the standing Director of the First Council Linyi Grain Association (临沂市粮食行业协会第一届理事会).

## Teoh Teik Kee

Teoh Teik Kee is our Lead Independent Director, and is currently an Executive Director of ecoWise Holdings Limited where he is responsible for overseeing corporate planning, mergers and acquisitions as well as implementation of business strategy. He is also an Independent Director of Hong Kong listed City e-Solutions Limited.

Mr. Teoh is a Chartered Accountant by training and worked with KPMG Peat Marwick McLintock in London and with PricewaterhouseCoopers in Singapore. Mr. Teoh has extensive experience in investment banking and stock broking when he was with the DBS Group from 1993 to 2001. Mr. Teoh graduated from Aston University, England with a B.Sc. (Hons) in Managerial & Administrative Studies and holds a Diploma in Corporate Treasurers in United Kingdom. He is also an associate member of the Institute of Chartered Accountants in England and Wales.

## Kong Xiang Chao

Kong Xiang Chao is our Independent Director. Prior to joining our Group, he was an accountant in Jiangsu Province Xuzhou City Commerce Bureau from 1964 to 1970, the Technical Director and subsequently the factory head of Jiangsu Province Xuzhou City Commercial Mechanical Factory from 1970 to 1991, the general manager of the Jiangsu Province Xuzhou City Blackcat Foodstuff Group from 1991 to 1998 and a researcher in Jiangsu Province Wantong Production Group from 1998, before he retired in 2004.

Kong Xiang Chao has a professional mechanical production certificate (机械制造工艺与设备专业) from the Jiangsu Mechanical Studies College (江苏省机械职工大学), which he obtained in 1984. He received an engineering qualification (工程师) from the Xuzhou Engineering Series Intermediate Post Accreditation Committee (徐州市工程系列中级职称评审委员会) in 1988, and a professional senior economist certificate (高级经济师) from the Jiangsu Senior Economist Board Accreditation Committee (江苏省经济专业高级职称评审委员会) in 1994. Kong Xiang Chao was appointed Deputy Secretary-General of the Candy Committee of the China Food Industry Association (中国食品工业协会) in 2000.

## Ong Wei Jin

Ong Wei Jin is our Independent Director and is presently practising as a lawyer in Singapore. His main areas of practice are corporate finance and general corporate law. He obtained a Bachelor of Law (Honours) from the National University of Singapore, a MBA (Investment and Banking) from the University of Hull and a Masters of Law from the National University of Singapore.

He is currently an Independent Director of NTI International Ltd and China XLX Fertiliser Ltd, both companies are listed on the SGX-ST.

### Zhang Ke

Zhang Ke is our Group Deputy General Manager (Administration and Human Resource) and is primarily overseeing the human resource and other general administrative functions of our Group. He started his career with Shandong Luzhou in April 1997 as a sales supervisor. From 1999 to 2000, he was the sales manager for Shandong Luzhou. From 2000 to 2004, he was the Deputy General Manager for Shandong Luzhou before being promoted to General Manager of Hunan Taoyuan. In 2005, he was the General Manager of Luzhou Bio-chem Technology (Shaanxi) Co., Ltd before assuming his current position.

He graduated with a degree in economics from Shandong Economic College in 1996.

### Zhang Cong Qiao

Zhang Cong Qiao is our Chief Financial Controller, and is responsible for the accounting, reporting and other financial functions of our Group. He is well-versed in the accounting and financial fields and has more than 15 years of experience in these aspects, particularly auditing and financial management. He started his career as a certified public accountant in the PRC in 1985 and continued his practice as a public auditor and tax consultant till 2003. He joined Shandong Luzhou as its divisional finance deputy general manager in September 2003 before he joined our Company as Chief Financial Controller following our listing.

Zhang Cong Qiao obtained a degree in cost analysis from the Shandong Economic College in October 1989 and holds qualifications as a certified public accountant, valuer, tax consultant, auditor and construction cost analyst in the PRC.

### Niu Ji Chao

Niu Ji Chao is our Chief Engineer. He is responsible for overseeing the technical aspects of our operations and other engineering related works. Niu Ji Chao has been involved in engineering works since 1998 as an assistant chief engineer at Shandong Luzhou Food Product Pte. Ltd. He was later appointed the chief engineer and production and technical centre manager at Shandong Luzhou from 2002 to 2003. Prior to joining our Group, he had been the deputy general manager and chief engineer of Shandong Luzhou from February 2003.

Prior to 1998, Mr Niu was working as a supervisor of the starch department at Shandong Yishui Luzhou Food Product Factory and an assistant production head of the factory at Liaoning Luzhou. He started his career in Shandong Yishui Luzhou Food Product Factory in September 1993.
In July 1996, he obtained his certificate in Food Processing and Manufacturing from Shandong University.

## Koh Pee Keat

Koh Pee Keat joined our Group as Director, Corporate Finance. He is responsible for our corporate finance function including our funding needs. His responsibility includes matters relating to ongoing compliance and reporting requirements. He has over 17 years of banking experience in DBS Bank in the area of trade finance, international banking, individual banking and enterprise banking. He has worked in DBS New York Agency for about four years in management position. He was the senior vice president of Bexcom Pte Ltd, Singapore, an e-commerce software provider, overseeing its operation, finance and legal affairs. Prior to joining our Group, he was the senior vice president/ Chief Finance Officer of Westcomb Financial Group Limited overseeing its group's finance function and operation. Pee Keat holds a Bachelor of Arts (Honours) degree with majors in Accounting and Financial Management from the University of Sheiffield.

## Mao De Qing

Mao De Qing is the General Manager of our Yishui Branch Office, and is responsible for the entire operations of the Branch Office. He started his career at Shandong Yishui Luzhou Food Product Factory in May 1997 before joining Liaoning Luzhou as general manager later in that year. In 2000, he joined Shandong Yishui Luzhou Food Product Pte. Ltd. as operations manager and was later promoted to general manager. He worked as a department manager of Shandong Luzhou from 2001 to 2003 before he joined Liaoning Luzhou as general manager in 2003. Prior to assuming the current post, Mao De Qing had assumed the post of deputy general manager of Shandong Luzhou from September 2004 and then the post of Group Deputy General Manager (Sales and Supply). He has received formal education up to pre-University level.

# Corporate Information

## Board of Directors

Niu Ji Xing *(Managing Director)*
Gao Zhong Fa *(Executive Director)*
Wang De You *(Executive Director)*
Teoh Teik Kee *(Lead Independent Director)*
Kong Xiang Chao *(Independent Director)*
Ong Wei Jin *(Independent Director)*

## Audit Committee

Teoh Teik Kee *(Chairman)*
Kong Xiang Chao
Ong Wei Jin

## Remuneration Committee

Teoh Teik Kee *(Chairman)*
Kong Xiang Chao
Ong Wei Jin

## Nominating Committee

Ong Wei Jin *(Chairman)*
Niu Ji Xing
Teoh Teik Kee

## Company Secretary

Vincent Lim Bock Hui, LLB (Hons)

## Registered Office

88 Amoy Street
Level Three
Singapore 069907

## Singapore Office

18 Jalan Masjid
#02-09 Kembangan Plaza
Singapore 418944
Tel: (65) 6225 0148
Fax: (65) 6225 1147

## Head Office and Principal Place of Business

No 18 Luzhou Road Yishui
Shandong Province 276400
People's Republic of China

## Share Registrar and Share Transfer Office

Boardroom Corporate & Advisory Services Pte. Ltd.
3 Church Street #08-01
Samsung Hub
Singapore 048983

## Auditors

Mazars LLP
133 Cecil Street #15-02
Keck Seng Tower
Singapore 069535
Partner in charge: Mr Choo Chai Leong (appointed 2007)
(on 3 January 2009, Mazars Moores Rowland LLP changed its name to Mazars LLP)

## Legal Advisor

Loo & Partners LLP
88 Amoy Street
Level Three
Singapore 069907

## Principal Bankers

China Construction Bank Corporation
Agricultural Development Bank of China
Agricultural Bank of China
Bank of China
Industrial and Commercial Bank of China
Rural Credit Cooperative of China

## Investor Relations Advisor

Citigate Dewe Rogerson, i.MAGE
1 Raffles Place #26-02
OUB Centre
Singapore 048616

## Investor Relations Contact

Mr Hudson Teh
Email: hudsonteh@luzhoufood.com

# Corporate Governance Report

The Board of Directors (the "Board") of Luzhou Bio-chem Technology Limited (the "Company") recognises the importance of corporate governance and the offering of high standards of accountability to the shareholders of the Company by complying with the benchmark set by the Code of Corporate Governance 2005 (the "Code") issued by the Ministry of Finance on 14 July 2005.

This report sets out the corporate governance practices that have been adopted by the Company with specific reference to the principles of the Code, as well as any deviation from any guideline of the Code together with an explanation for such deviation.

## STATEMENT OF COMPLIANCE

The Board confirms that for the financial year ended 31 December 2008, the Company has generally adhered to the principles and guidelines as set out in the Code, save as otherwise explained below.

### Board Matters

#### *The Board's Conduct of its Affairs*

***Principle 1: Every company should be headed by an effective Board to lead and control the Company. The Board is collectively responsible for the success of the Company. The Board works with the management of the Company (the "Management") to achieve this and the Management remains accountable to the Board.***

The Board comprises six directors, which include three executive directors and three independent directors, all of whom are from different disciplines and bring with them diversity of experience which will enable them to contribute effectively to the Company.

The principal functions of the Board, apart from its statutory responsibilities, include:

- reviewing and overseeing the management of the Group's business affairs and financial controls, performance and resource allocation;

- approving matters such as corporate strategy and business plans, corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposals of assets and major corporate policies on key areas of operations; and

- approving the release of the Group's quarterly, half-year and full-year financial results and related party transactions of a material nature.

The Board has established three Board committees, namely, the Audit Committee ("AC"), the Nominating Committee ("NC") and the Remuneration Committee ("RC") to assist in the execution of its responsibilities. These committees operate within clearly defined terms of reference.

The Board will meet on a quarterly basis and ad-hoc Board meetings will be convened when they are deemed necessary. In between Board meetings, other important matters will be put to the Board's approval by way of circulating resolutions in writing. The Company's Articles of Association provide for meetings of Directors to be held by means of telephone conference or other methods of simultaneous communication by electronic or telegraphic means.

Newly appointed directors are given an orientation on the Group's business strategies and operations. Directors also have the opportunity to visit the Group's operating facilities and meet with the Management to gain a better understanding of the Group's business operations and governance practices. All directors who have no prior experience as directors of a listed company will undergo training and briefing on the roles and responsibilities as directors of a listed company.

### Board Composition and Balance

***Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.***

As at the date of this report, the Board comprises the following directors:

**Executive Directors**

| | |
|---|---|
| Niu Ji Xing | Managing Director |
| Gao Zhong Fa | Executive Director |
| Wang De You | Executive Director |

**Non-Executive Directors**

| | |
|---|---|
| Kong Xiang Chao | Independent Director |
| Teoh Teik Kee | Independent Director |
| Ong Wei Jin | Independent Director |

The independent directors make up more than one-third of the Board. The Board has adopted the Code's criteria of an independent director in its review. An "independent" director is one who has no relationship with the company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the directors' independent business judgment with a view to the best interests of the company. The Board is of the view that all independent non-executive directors have satisfied the criteria of independence as a result of its review. The independence of each independent director will be reviewed annually by the NC.

The composition of the Board will be reviewed annually by the NC to ensure that there is an appropriate mix of expertise and experience, which the Group may tap for assistance in furthering its business objectives and shaping its business strategies. Together, the directors as a group provide core competencies in business, accounting, investment, audit and taxation and legal matters.

The independent directors also communicate regularly to discuss matters such as the Group's financial performance, corporate governance initiatives and the remuneration of the executive directors and executive officers.

The profiles of the directors are set out on pages 16 and 17 of this Annual Report. The Board considers the current Board size appropriate for the nature and scope of the Group's operations.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

***Principle 3 : There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.***

Mr Niu Ji Xing is the Managing Director of the Company and bears executive responsibility for the Group's business performance. He also assumes the responsibility of the Chairman of the Board and is responsible for scheduling Board meetings as and when required, setting the agenda for Board meetings and ensuring the quality, quantity and timeliness of the flow of information between the Management, the Board and shareholders. He is also responsible for ensuring compliance with the Company's guidelines on corporate governance.

The Company has not created a separate Chairman position as the Board is of the view that the current Board composition is appropriate and effective for the purposes for which the Board's roles and responsibilities are set up. The Board is of the view that with the establishment of the three Board committees, there are adequate safeguards in place to prevent an uneven concentration of power and authority in a single individual.

# Corporate Governance Report

## Board Membership

***Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board.***

The NC comprises the following members:

Ong Wei Jin (Chairman)
Teoh Teik Kee
Niu Ji Xing

Mr Ong Wei Jin and Mr Teoh Teik Kee are independent directors.

The terms of reference of the NC have been approved and adopted. The duties and powers of the NC include:

- making recommendations to the Board on all Board appointments and re-nominations having regard to the director's contribution and performance (such as attendance, preparedness, participation and candour);
- ensuring that all directors submit themselves for re-nomination and re-election at regular intervals and at least once every three years;
- determining annually whether a director is independent in accordance with paragraph 2.1 of the Code;
- formulating and deciding whether a director is able to and has adequately carried out his duties as a director of the Company, in particular, where the director concerned has multiple board representations; and
- assessing the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

All directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years. Article 107 of the Company's Articles of Association requires one-third of the directors to retire and submit themselves for re-election by shareholders at each annual general meeting ("AGM"). In addition, Article 117 of the Company's Articles of Association provides that a director appointed by the Board must retire and submit himself for re-election at the next AGM following his appointment.

The dates of initial appointment and last re-election of each director, together with their directorships in other listed companies are set out below:

| Name of director | Appointment | Date of initial appointment | Date of last re-election | Current directorships in listed companies | Past directorships in listed companies |
|---|---|---|---|---|---|
| Niu Ji Xing | Executive director | 17 November 2004 | 28 April 2008 | None | None |
| Gao Zhong Fa | Executive director | 13 May 2005 | 23 April 2007 | None | None |
| Wang De You | Executive director | 13 May 2005 | 23 April 2007 | None | None |
| Kong Xiang Chao | Non-executive independent director | 13 May 2005 | 23 April 2007 | None | None |
| Teoh Teik Kee | Non-executive independent director | 13 May 2005 | 28 April 2008 | ecoWise Holdings Limited<br>City e-Solutions Ltd | Westcomb Financial Group Limited |
| Ong Wei Jin | Non-executive independent director | 13 May 2005 | 28 April 2006 | NTI International Ltd<br>China XLX Fertiliser Ltd | Vantage Corporation Ltd |

According to Article 107 of the Company's Articles of Association, Mr Ong Wei Jin and Mr Wang De You will retire at the Company's forthcoming AGM and will be eligible for re-election.

Key information on the individual directors and their shareholdings in the Company are set out on pages 16 to 17 and 35 of this Annual Report. None of the directors hold shares in the subsidiaries of the Company.

### Board Performance

***Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.***

The Board performance is linked to the overall performance of the Group. The Board should ensure compliance with the applicable laws and the Board members should act in good faith, with due diligence and care in the best interest of the Company and its shareholders.

The NC is responsible for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual director. The NC proposes objective performance criteria which are approved by the Board. The performance criteria include comparison with industry peers, addressing how the Board has enhanced long-term shareholders' value and consideration of the Company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers. Other performance criteria that may be used include return on assets, return on equity, return on investment, economic value added and profitability on capital employed.

These performance criteria are not changed from year to year and where circumstances deem it necessary for any of the criteria to be changed, the Board will justify such changes.

### Access to Information

***Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.***

The Company recognises the importance of the flow of information for the Board to discharge its duties effectively. All directors are furnished with the management accounts of the Group and regular updates on the financial position of the Company. The Board has separate and independent access to the Company Secretaries and Management at all times. The Company Secretaries facilitate information flow within the Board and its committees and between senior management. The Company Secretaries attend all Board Meetings and meetings of the Board committees of the Company and ensure that the Company complies with the requirements of the Companies Act and the SGX-ST. The minutes of all Board committees' meetings are circulated to the Board.

The Board will have independent access to professional advice when required, subject to the approval of the Chairman. The fees of professional advice will be borne by the Company.

## REMUNERATION MATTERS

### Procedures for Developing Remuneration Policies

***Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.***

The RC comprises the following members:

| | |
|---|---|
| Teoh Teik Kee | (Chairman) |
| Ong Wei Jin | |
| Kong Xiang Chao | |

Mr Teoh Teik Kee, Mr Ong Wei Jin and Mr Kong Xiang Chao are non-executive independent directors.

The terms of reference of the RC have been approved and adopted. The duties and powers of the RC include:

- recommending to the Board a framework of remuneration for the directors and senior management;
- determining specific remuneration packages for each director. The RC should cover all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind. In setting remuneration packages, the RC should be aware of pay and employment conditions within the industry and in comparable companies. The remuneration packages should take into account the Company's relative performance and the performance of individual directors. The remuneration of non-executive directors should be appropriate to the level of contribution, taking into account factors such as effort and time spent, and the responsibilities of the directors. Non-executive directors should not be over-compensated to the extent that their independence may be compromised;
- in the case of service contracts of directors, reviewing and recommending to the Board the terms of renewal of the service contracts. There should be a fixed appointment period for all directors after which they are subject to re-election. The service contracts should not be excessively long or with onerous removal clauses. The RC should consider what compensation commitments the directors' contracts of service, if any, would entail in the event of early termination. The RC should aim to be fair and avoid rewarding poor performers; and
- considering the various disclosure requirements for directors' and key executives' remuneration, particularly those required by regulatory bodies such as the SGX-ST, and ensure that there is adequate disclosure in the financial statements to ensure and enhance transparency between the Company and relevant interested parties.

The RC's recommendations are submitted for endorsement by the entire Board. No director is involved in deciding his own remuneration.

### Level and Mix of Remuneration

***Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.***

In setting remuneration packages, the Company takes into consideration the remuneration packages and employment conditions within the industry and in comparable companies. The remuneration package also takes into account the Company's relative performance and the performance of individual directors.

The non-executive independent directors are paid directors' fees, taking into account factors such as effort and time spent, and responsibilities of the directors. Directors' fees are recommended by the Board for approval at the Company's AGM.

The executive directors do not receive directors' fees. The remuneration packages of the executive directors include a basic salary. The executive directors are not entitled to receive any profit-sharing performance bonus.

The Company has entered into service agreements with the executive directors, Mr Niu Ji Xing, Mr Gao Zhong Fa and Mr Wang De You for an initial period of three years with effect from 1 July 2005. Upon the expiry of the initial period of three years, the employment of the executive directors shall be automatically renewed on a year-to-year basis on such terms and conditions as the parties may agree. The service agreement provides for termination by each party giving not less than six months' notice in writing.

The Company recognises the importance of motivating each employee and in this regard, the Luzhou Performance Share Scheme (the "Scheme") was approved at the extraordinary general meeting ("EGM") on 28 April 2006. Details of the Scheme are set out in the circular dated 12 April 2006 and issued to shareholders prior to the said EGM.

The Scheme is administered by the RC. The directors are eligible to participate in the Scheme. However, as controlling shareholders and their associates are not eligible to participate in the Scheme, Mr Niu Ji Xing, being a controlling shareholder, is not eligible. To date, no awards under the Scheme have been granted.

## Disclosure on Remuneration

***Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.***

The following shows the level and mix of each director's remuneration paid or payable for the financial year ended 31 December 2008:

| Remuneration bands | Salary (1) % | Bonus (1) % | Directors' fees (2) % | Other benefits % | Total % |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| *Above S$250,00 and up to S$500,000* | | | | | |
| Niu Ji Xing | 100.0 | – | – | – | 100.0 |
| *Up to S$250,000* | | | | | |
| Gao Zhong Fa | 100.0 | – | – | – | 100.0 |
| Wang De You | 100.0 | – | – | – | 100.0 |
| Kong Xiang Chao | – | – | 100.0 | – | 100.0 |
| Teoh Teik Kee | – | – | 100.0 | – | 100.0 |
| Ong Wei Jin | – | – | 100.0 | – | 100.0 |
| **Executive Officers** | | | | | |
| *Up to S$250,000* | | | | | |
| Zhang Ke | 61.5 | – | – | 38.5 | 100.0 |
| Zhang Cong Qiao | 100.0 | – | – | – | 100.0 |
| Niu Ji Chao | 82.5 | – | – | 17.5 | 100.0 |
| Mao De Qing | 96.8 | – | – | 3.2 | 100.0 |
| Koh Pee Keat | 92.8 | 7.2 | – | – | 100.0 |

Notes:-

(1) Salary is inclusive of salary, bonus, allowances, Central Provident Fund contributions and pension funds.

(2) Directors' fees are subject to approval of the shareholders at the forthcoming AGM.

No employee who is an immediate family member of any director was paid more than S$150,000 during the financial year ended 31 December 2008.

## ACCOUNTABILITY AND AUDIT

### Accountability

***Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.***

The Board understands its accountability to the shareholders on the Group's performance, position and prospects. The objectives of the presentation of the annual financial statements and quarterly announcements to its shareholders are to provide the shareholders with a balanced and understandable analysis and explanation of the Group's financial performance and position and prospects.

The Management understands its role to provide all members of the Board with balanced and understandable management accounts of the Group's performance, position and prospects on a monthly basis.

### Audit Committee

***Principle 11: The Board should establish an AC with written terms of reference which clearly set out its authority and duties.***

The AC comprises the following members:

Teoh Teik Kee (Chairman)
Kong Xiang Chao
Ong Wei Jin

Mr Teoh Teik Kee, Mr Kong Xiang Chao and Mr Ong Wei Jin are non-executive independent directors.

The terms of reference of the AC have been approved and adopted. The roles and functions of the AC include:

- reviewing with the external auditors their audit plan, their evaluation of the system of internal accounting controls, their audit report, their management letter and the Management's response;

- reviewing the internal control and procedures and assisting in co-ordination between the external auditors and the Management, reviewing the co-operation and assistance given by the Management to the external auditors, and discussing problems and concerns, if any, arising from the interim and final audits and any matters which the auditors may wish to discuss (in the absence of the Management where necessary);

- ensuring that the internal audit function is on its face adequate and has appropriate standing within the Company, ensuring the adequacy of the internal audit function, and reviewing the scope and results of the internal audit procedures including the effectiveness of the internal audit function;

- ensuring that a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management, is conducted by the internal and/or external auditors; ensuring that one such review is carried out every year for at least one company in the Group;

- reviewing the financial statements of the Group with the assistance and advice of the external auditors before submission to the Board for approval to ensure compliance on the face of the financial statements with any stock exchange and statutory/regulatory requirements;

- commissioning, reviewing and discussing with the external auditors, if necessary, any fraud or irregularity, or failure of internal controls, or infringement of any relevant laws, rules or regulations, highlighted or reported to the AC, which has or is likely to have a material impact on the Group's operating results and/or financial position, and the Management's response;

- reviewing the scope and results of the audit and the independence and objectivity of the external auditors, and where the external auditors also supply a substantial volume of non-audit services to the Company, keeping the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;

- reviewing the independence of the external auditors annually, and recommending to the Board the appointment, re-appointment or removal of the external auditors and approving the remuneration and terms of engagement of the external auditors;

- approving internal control procedures and arrangements for all interested person transactions;

- reviewing arrangements by which the staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensuring that arrangements are in place for the independent investigation of such matters and for appropriate follow up action;

- reviewing transactions falling within the scope of the SGX-ST Listing Manual, in particular, matters pertaining to Interested Person Transactions and Acquisitions and Realisations as laid down in Chapters 9 and 10 respectively;

- reviewing any potential conflicts of interests;

- undertaking such other reviews and projects as may be requested by the Board and reporting to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee; and

- generally undertaking such other functions and duties as may be required by statute or the SGX-ST Listing Manual, and by such amendments made thereto from time to time.

The AC shall have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by the Management and full discretion to invite any director or executive officer of the Group to attend its meetings, and be given reasonable resources to enable it to discharge its functions properly and effectively.

The Company has put in place whistle-blower policies and arrangements by which staff may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters. To ensure independent investigation of such matters and for appropriate follow up action, all whistle-blower reports will be sent to the Chairman of the Audit Committee and the Chairman of the Board will be informed immediately of all whistle-blower reports received.

The AC meets with the external auditors, and with the internal auditors, without the presence of the Management, at least annually.

The Company's external auditors are Mazars LLP Singapore and during the financial year ended 31 December 2008, there were no non-audit services provided by the external auditors. The AC is satisfied that their independence has not been impaired by the provision of such services.

The AC has recommended to the Board that Mazars LLP Singapore be nominated for re-election as external auditors at the forthcoming AGM.

### Internal Control

***Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.***

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group has implemented a system of internal controls designed to provide reasonable but not absolute assurance that assets are safeguarded, proper accounting records are maintained, operational controls are adequate and business risks are suitably managed.

The external auditors provide feedback to the AC highlighting matters that require the attention of the Management. The AC keeps under review the effectiveness of the Group's system of accounting and internal financial controls, for which the directors are responsible. The Board is generally satisfied with the adequacy of the internal controls currently in place.

### Internal Audit

***Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.***

The Board recognises the importance of maintaining a system of internal controls to safeguard the shareholders' investments and the Company's assets. An internal audit team has been formed to perform the internal audit function. The internal audit team reports primarily to the AC. The internal auditors plan its internal audit schedules in consultation with, but independent of, the Management. The internal audit plan is submitted to the AC for approval prior to the commencement of the internal audit. The AC will review the activities of the internal auditors, including overseeing and monitoring of the implementation of improvements required on internal control weaknesses identified.

The AC has reviewed the annual internal audit plan for FY2008. The AC is satisfied that the internal audit functions had been adequately carried out.

## COMMUNICATION WITH SHAREHOLDERS

### Communication with Shareholders

***Principle 14: Companies should engage in regular, effective and fair communication with shareholders.***

The Company has a Singapore office to facilitate communication with shareholders. The Company's quarterly, half year and full year announcements, analyst briefings and press releases are issued via SGXNET, the Company's website (www.luzhou.com.sg) and investors' website (www.shareinvestor.com). Shareholders have access to information on the Group via the Company's website.

The Company discloses all material information on a timely basis and to all shareholders.

### Greater Shareholder Participation

***Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.***

The Company supports the Code's principle to encourage communication with and participation by shareholders. Shareholders are encouraged to attend the AGM to ensure a greater level of shareholder participation. The Articles of Association allow a shareholder of the Company to appoint up to two proxies to attend the AGM and vote in place of the shareholder. Shareholders are given the opportunity to pose questions to the Board or the Management at the AGM. The members of the AC, NC and RC will be present at the AGM to answer questions relating to matters overseen by the committees. The external auditors will also be present to assist the directors in addressing any queries posed by the shareholders.

The Board notes that there should be separate resolutions at general meetings on each substantially separate issue and supports the Code's principle as regards "bundling" of resolutions. In the event that there are resolutions which are interlinked, the Board will explain the reasons and material implications.

## RISK MANAGEMENT

Pursuant to the Listing Manual Rule 1207 (4)(b) (iv), the Group is continually reviewing and improving its business and operational activities to take into account the risk management perspective. This includes reviewing management and manpower resources and updating work flows, processes and procedures to meet the current and future market conditions. The Group has also considered the various financial risks and management, details of which are found on pages 68 to 72 of the Annual Report.

## DEALING IN SECURITIES

The Group has adopted and implemented policies in line with the SGX-ST's best practices in relation to the dealing of shares of the Company. The policies have been made known to directors, executive officers and any other persons as determined by the Management who may possess unpublished material price-sensitive information of the Group.

The Group has procedures in place prohibiting directors and officers from dealing in the Company's shares during the two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and the one month before the announcement of the Company's full year financial statements ("Prohibited Periods"), or if they are in possession of unpublished material price-sensitive information of the Group.

Directors and officers are required to comply with and observe the laws on insider trading even if they trade in the Company's securities outside the Prohibited Periods. They are discouraged from dealing in the Company's securities on short-term considerations and should be mindful of the law on insider trading.

The Board confirms that for the financial year ended 31 December 2008, the Company has complied with Listing Rule 1207(18).

## INTERESTED PERSON TRANSACTIONS

The Company is required to comply with the requisite rules under Chapter 9 of the SGX-ST Listing Manual for interested person transactions.

All interested person transactions will be properly documented and submitted to the AC for quarterly review to ensure that they are carried out on an arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the shareholders.

In addition, an interested person transaction of a value equal to or more than 3% of the Group's latest audited net tangible assets will be approved by the AC prior to entry into such transactions.

In the event that a member of the AC is interested in any interested person transaction, he will abstain from reviewing that particular transaction.

The Board will ensure that all disclosure, approval and other requirements on interested person transactions, including those required by prevailing legislation, the SGX-ST Listing Manual and accounting standards are complied with.

The aggregate values of the interested person transactions between the Company or its subsidiaries and any of its interested persons during FY2008, are as follows:

| Name of interested person | Aggregate value of all transactions during FY2008 (excluding transactions less than $100,000 and transactions conducted under Shareholders' Mandate pursuant to Rule 920) | Aggregate value of all interested person transactions conducted under Shareholders Mandate pursuant to Rule 920 (excluding transactions less than $100,000) |
|---|---|---|
| | RMB'000 | RMB'000 |
| Rental expenses to Shandong Luzhou | 2,600 | – |
| Rental expenses to Liaoning Luzhou | 3,500 | – |
| Rental expenses to Shaanxi Luzhou | 1,900 | – |

Shandong Luzhou – Shandong Luzhou Food Group Co., Ltd
Liaoning Luzhou – Fushun Luzhou Amylum Sugar Products Co., Ltd
Shaanxi Luzhou – Shaanxi Xingping Luzhou Sugar Products Co., Ltd

### Material Contracts and Loans

Pursuant to Rule 1207(8) of the SGX-ST Listing Manual, the Company confirms that except as disclosed in the Report of Directors and Financial Statements and under "Interested Person Transactions" above, there were no other material contracts and loans of the Company and its subsidiaries involving the interests of the Chief Executive Officer or any Director or controlling shareholder, either still subsisting at the end of the financial year or if not then subsisting, which were entered into since the end of the previous financial year.

## DIRECTORS' ATTENDANCE AT BOARD, AUDIT COMMITTEE AND NOMINATED COMMITTEE MEETINGS

The number of meetings held and attendance at the meetings for FY2008 were as follows:

| Name of director | Board | | Audit Committee | | Remuneration Committee | | Nominating Committee | |
|---|---|---|---|---|---|---|---|---|
| | No. of meetings held | No. of meetings attended | No. of meetings held | No. of meetings attended | No. of meetings held | No. of meetings attended | No. of meetings held | No. of meetings attended |
| Niu Ji Xing | 4 | 4 | – | – | – | – | 1 | 1 |
| Gao Zhong Fa | 4 | 4 | – | – | – | – | – | – |
| Wang De You | 4 | 4 | – | – | – | – | – | – |
| Kong Xiang Chao | 4 | 4 | 4 | 4 | 1 | 1 | – | – |
| Teoh Teik Kee | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |
| Ong Wei Jin | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |

# Financial Contents

# Report of the Directors

We are pleased to present this annual report to the members of the Company together with the audited consolidated financial statements of the Group and balance sheet of the Company for the financial year ended 31 December 2008.

## DIRECTORS

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

Niu Ji Xing
Gao Zhong Fa
Wang De You
Kong Xiang Chao
Teoh Teik Kee
Ong Wei Jin

## DIRECTORS' INTERESTS

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

| | Ordinary shares | | | |
|---|---|---|---|---|
| | Holdings registered in name of director | | Holdings in which a director is deemed to have an interest | |
| **Name of director** | **At beginning of the year** | **At end of the year** | **At beginning of the year** | **At end of the year** |
| LUZHOU BIO-CHEM TECHNOLOGY LIMITED | | | | |
| Niu Ji Xing | 3,900,000 | 3,900,000 (2) | 157,950,000 | 157,950,000 (1) |
| Gao Zhong Fa (3) | 15,200,000 | 15,200,000 | – | – |
| Wang De You (4) | 10,100,000 | 10,100,000 | – | – |
| Teoh Teik Kee | 125,000 | 125,000 | – | – |
| Ong Wei Jin | 125,000 | 125,000 | – | – |

(1) These shares are held by Faith Corporate International Limited, a company incorporated in the British Virgin Islands, whose sole director and shareholder is the Managing Director, Niu Ji Xing. These shares are registered in the name of Citibank Nominees Singapore Private Limited.

(2) The shares of Niu Ji Xing are registered in the name of Citibank Nominees Singapore Private Limited.

(3) The shares of Gao Zhong Fa are registered in the name of Citibank Nominees Singapore Private Limited.

(4) The shares of Wang De You are registered in the name of Citibank Nominees Singapore Private Limited.

By virtue of Section 7 of the Act, Niu Ji Xing is deemed to have interests in all the subsidiaries of Luzhou Bio-Chem Technology Limited, at the beginning and at the end of the financial year.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning or at the end of the financial year.

There were no changes in the above mentioned interests in the Company between the end of the financial year and at 21 January 2009.

## DIRECTORS' INTERESTS (Cont'd)

Neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objectives are, or one of whose objective is, to enable the 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.

Since the end of the last financial year, no director has received or become entitled to receive a benefit which is required to be disclosed by Section 201 (8) of the Act by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in the accompanying financial statements.

## AUDIT COMMITTEE

The members of the Audit Committee during the year and at the date of this report are:-

Teoh Teik Kee (Chairman)
Ong Wei Jin
Kong Xiang Chao

The Audit Committee carries out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap. 50, and the Listing Manual, and performs mainly the following functions:-

a) review with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their letter to management and the management's response;

b) review quarterly financial information and annual financial statements before submission to the Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the SGX-ST Listing Manual and any other relevant statutory or regulatory requirements;

c) review any formal announcements relating to the Group's financial performance;

d) review the internal control procedures and ensure co-ordination between the external auditors and the management, and review the assistance given by the management to the auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of the management, where necessary);

e) review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and the management's response;

f) consider the appointment or re-appointment of the external auditors and matters relating to the resignation or dismissal of the auditors;

g) review interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual;

h) review internal audit programme and scope and results of the internal audit procedures (including the effectiveness of the internal audit functions), and ensure co-ordination between the internal and external auditors and management;

i) undertake such other reviews and projects as may be requested by the Board, and will report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee;

j) review any potential conflict of interests; and

k) generally undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual, or by such amendments as may be made thereto from time to time.

## AUDIT COMMITTEE (Cont'd)

The Audit Committee convened four meetings since the last report of the directors.

On 3 January 2009, Mazars Moores Rowland LLP changed its name to Mazars LLP.

The Audit Committee has nominated Mazars LLP for re-appointment as the auditors of the Company at the forthcoming Annual General Meeting.

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also reviews the level of audit and non-audit fees and is satisfied with the independence and objectivity of the external auditors. The external and internal auditors have unrestricted access to the Audit Committee.

The auditors, Mazars LLP, Public Accountants and Certified Public Accountants, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors

**Niu Ji Xing**
Director

**Gao Zhong Fa**
Director

20 March 2009

# Statement by the Directors



In our opinion:-

(a) the financial statements set out on pages 40 to 72 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 2008 and of the results, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and International Financial Reporting Standards; and

(b) 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.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

**Niu Ji Xing**
Director

**Gao Zhong Fa**
Director

20 March 2009

# Report of the Independent Auditors

To the Members of Luzhou Bio-Chem Technology Limited

We have audited the accompanying financial statements of LUZHOU BIO-CHEM TECHNOLOGY LIMITED (the "Company") and its subsidiaries (collectively, the "Group") which comprise the balance sheets of the Group and the Company as at 31 December 2008, the statements of changes in equity, the income statement and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages on pages 40 to 72.

## MANAGEMENTS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and International Financial Reporting Standards. This responsibility includes devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair income statement and balance sheets and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International 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 auditors' judgement, 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 auditors consider internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## IN OUR OPINION,

(a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and International 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 2008 and of the results, changes in equity and cash flows of the Group for the financial year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

**MAZARS LLP**
PUBLIC ACCOUNTANTS AND CERTIFIED PUBLIC ACCOUNTANTS
*(On 3 January 2009, Mazars Moores Rowland LLP changed its name to Mazars LLP)*

**Partner – Choo Chai Leong**

Singapore
20 March 2009

# Consolidated Income Statement

For the financial year ended 31 December 2008



| | Note | Group 2008 RMB'000 | Group 2007 RMB'000 |
|---|---|---|---|
| **Revenue** | 3 | 2,594,224 | 2,177,121 |
| Cost of sales | | (2,368,046) | (1,914,896) |
| **Gross profit** | | 226,178 | 262,225 |
| Other operating income | 4 | 35,423 | 27,538 |
| Selling and distribution expenses | | (132,628) | (120,484) |
| Administrative expenses | | (91,520) | (84,445) |
| Other operating expenses | | (5,402) | (4,303) |
| Finance expenses | 5 | (30,768) | (25,649) |
| **Profit before taxation** | 6 | 1,283 | 54,882 |
| Taxation | 8 | – | (378) |
| **Net profit for the year** | | 1,283 | 54,504 |
| **Attributable to:** | | | |
| Equity holders of the company | | 1,467 | 56,426 |
| Minority interests | | (184) | (1,922) |
| **Net profit for the year** | | 1,283 | 54,504 |
| **Earnings per share attributable to the equity holders of the Company (RMB cents):** | | | |
| **Basic and diluted** | 9 | 0.4 | 14.3 |

*The accompanying notes form an integral part of these financial statements.*

# Balance Sheets

As at 31 December 2008

| | Note | Group 2008 RMB'000 | Group 2007 RMB'000 | Company 2008 RMB'000 | Company 2007 RMB'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 10 (i) | 849,993 | 732,354 | 92 | 56 |
| Intangible assets | 11 | 7,200 | – | – | – |
| Land use rights | 10 (ii) | 27,356 | 31,062 | – | – |
| Investments in subsidiaries | 12 | – | – | 372,654 | 275,326 |
| | | 884,549 | 763,416 | 372,746 | 275,382 |
| **Current assets** | | | | | |
| Inventories | 13 | 182,753 | 260,792 | – | – |
| Trade receivables | 14 | 120,263 | 116,876 | – | – |
| Other receivables, deposits and prepayments | 15 | 27,502 | 51,766 | 24,527 | 80,515 |
| Amount owing by subsidiaries | 16 | – | – | 49,624 | 75,323 |
| Cash and cash equivalents | 17 | 104,380 | 75,401 | 17,720 | 743 |
| | | 434,898 | 504,835 | 91,871 | 156,581 |
| **Total assets** | | 1,319,447 | 1,268,251 | 464,617 | 431,963 |
| **Equity attributable to equity holders of the company** | | | | | |
| Share capital | 18 | 282,820 | 282,820 | 282,820 | 282,820 |
| Statutory reserve | 19 | 67,886 | 66,025 | – | – |
| Accumulated profits | | 120,423 | 147,745 | 131,349 | 72,272 |
| | | 471,129 | 496,590 | 414,169 | 355,092 |
| **Minority interests** | | 40,677 | 33,661 | – | – |
| **Total equity** | | 511,806 | 530,251 | 414,169 | 355,092 |
| **Non-current liabilities** | | | | | |
| Amount owing to a related party | 20 | 12,601 | 15,121 | – | – |
| Interest-bearing loans and borrowings | 21 | 343,283 | 332,024 | 28,567 | 52,182 |
| Deferred income | 22 | 10,868 | – | – | – |
| Deferred taxation | 23 | 589 | 589 | – | – |
| | | 367,341 | 347,734 | 28,567 | 52,182 |
| **Current liabilities** | | | | | |
| Trade payables | 24 | 159,172 | 162,593 | – | – |
| Other payables | 25 | 130,997 | 142,777 | 824 | 2,313 |
| Deferred income | 22 | 1,395 | – | – | – |
| Amount owing to a related party | 20 | 3,221 | 2,520 | – | – |
| Interest-bearing loans and borrowings | 21 | 145,515 | 82,376 | 21,057 | 22,376 |
| | | 440,300 | 390,266 | 21,881 | 24,689 |
| **Total liabilities** | | 807,641 | 738,000 | 50,448 | 76,871 |
| **Total equity and liabilities** | | 1,319,447 | 1,268,251 | 464,617 | 431,963 |

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2008



| Group | Share capital RMB'000 | Statutory reserve RMB'000 | Accumulated profits RMB'000 | Total attributable to equity holders of the Company RMB'000 | Minority interests RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Balance as at 1 January 2007 | 153,022 | 53,255 | 131,017 | 337,294 | (417) | 336,877 |
| Net profit for the year | – | – | 56,426 | 56,426 | (1,922) | 54,504 |
| Total recognised income | – | – | 56,426 | 56,426 | (1,992) | 54,504 |
| Issue of shares | 129,798 | – | – | 129,798 | – | 129,798 |
| Minority interest | – | – | – | – | 36,000 | 36,000 |
| Transfer to statutory reserve | – | 12,770 | (12,770) | – | – | – |
| Dividend relating to 2006 paid | – | – | (26,928) | (26,928) | – | (26,928) |
| Balance as at 31 December 2007 | 282,820 | 66,025 | 147,745 | 496,590 | 33,661 | 530,251 |
| Net profit for the year | – | – | 1,467 | 1,467 | (184) | 1,283 |
| Total recognised income | – | – | 1,467 | 1,467 | (184) | 1,283 |
| Minority's investment in subsidiary (Note 12) | – | – | – | – | 7,200 | 7,200 |
| Transfer to statutory reserve | – | 1,861 | (1,861) | – | – | – |
| Dividend relating to 2007 paid | – | – | (26,928) | (26,928) | – | (26,928) |
| Balance as at 31 December 2008 | 282,820 | 67,886 | 120,423 | 471,129 | 40,677 | 511,806 |

*The accompanying notes form an integral part of these financial statements.*

# Consolidated Statement of Cash Flows

For the financial year ended 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 1,283 | 54,882 |
| Adjustments for:- | | | |
| Depreciation of property, plant and equipment | | 78,352 | 73,010 |
| Amortisation of land use rights | | 543 | 530 |
| Amortisation of government grant | | (1,395) | – |
| Gain on disposal of plant and equipment | | (3,470) | (5,699) |
| Interest expense | | 30,768 | 24,617 |
| Interest income | | (436) | (702) |
| Allowance for inventories | | 2,269 | – |
| Allowance for doubtful trade receivables | | 604 | 342 |
| **Operating profit before working capital changes** | | 108,518 | 146,980 |
| Changes in working capital: | | | |
| Inventories | | 75,770 | (62,004) |
| Trade receivables | | (4,241) | (56,670) |
| Other receivables, deposits and prepayments | | 24,264 | (14,308) |
| Amount owing by a related party | | 701 | 8,133 |
| Trade payables | | (3,421) | 40,323 |
| Other payables | | (7,547) | 19,148 |
| Cash deposits pledged | | (9,300) | (1,001) |
| Cash deposits released from pledge | | 3,450 | – |
| **Cash generated from operations** | | 188,194 | 80,601 |
| Income taxes paid | | – | (1,215) |
| **Net cash generated from operating activities** | | 188,194 | 79,386 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (219,479) | (221,663) |
| Purchase of intangible asset | | (7,200) | – |
| Purchase of land use rights | | (788) | (15,696) |
| Proceeds from disposal of plant and equipment | | 26,958 | 14,315 |
| Interest income received | | 436 | 702 |
| Proceeds from government grant | | 13,658 | – |
| **Net cash used in investing activities** | | (186,415) | (222,342) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | – | 129,798 |
| Proceeds from issue of shares to minority interest | | – | 1,700 |
| Interest expense paid | | (30,768) | (24,617) |
| Amount owing to a related party | | (2,520) | (2,520) |
| Cash inflow from minority interest | | 7,200 | – |
| Repayment of interest-bearing loans and borrowings | | (440,566) | (365,500) |
| Proceeds from interest-bearing loans and borrowings | | 514,964 | 427,680 |
| Dividend paid | | (26,928) | (26,928) |
| **Net cash generated from financing activities** | | 21,382 | 139,613 |
| **Net increase/(decrease) in cash and cash equivalents** | | 23,161 | (3,343) |
| **Effect of exchange rate changes on cash and cash equivalents** | | (32) | (20) |
| **Cash and cash equivalents at beginning of financial year** | | 69,601 | 72,964 |
| **Cash and cash equivalents at end of financial year** | 17 | 92,730 | 69,601 |

*The accompanying notes form an integral part of these financial statements.*

## 1. DOMICILE AND ACTIVITIES

LUZHOU BIO-CHEM TECHNOLOGY LIMITED (the "Company") is incorporated in the Republic of Singapore and has its registered office at 88 Amoy Street, Level Three, Singapore 069907. The Company was admitted to the main board of the Singapore Exchange Securities Trading Limited on 24 February 2006. The Company's principal place of business is at No. 18 Jalan Masjid, #02-09 Kembangan Plaza, Singapore 418944.

The principal activity of the Company is that of an investment holding. The principal activities of the subsidiaries are set out in Note 12 to the financial statements.

The consolidated financial statements relate to the Company and its subsidiaries (referred to as the "Group").

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

During the financial year, the Group adopted all the new/revised IFRSs that are mandatory for application from that date. The adoption of the new/revised IFRSs did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements.

The financial statements are presented in Chinese Renminbi ("RMB") and all values are rounded to the nearest thousand. They have been prepared on the historical cost basis except as disclosed in the significant accounting policies below.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

#### *Critical accounting estimates and judgements*

Estimates and judgements are currently evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The following summarises significant judgements made in the process of applying the Group's accounting policies.

#### *Allowance for bad and doubtful receivables*

The impairment policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the accounts receivables and on management judgement. At the balance sheet date, the trade receivable, net of allowance, amounted to RMB 120,263,000 (2007: RMB 116,876,000). A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current credit worthiness and the past collection history of each customer. If the financial condition of these customers were to deteriorate, resulting in an impairment of their ability to make payment, addition allowance will be required.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 2.1 Basis of preparation (Cont'd)

***Revenue recognition***

In making its judgement, management considered the criteria for the recognition of revenue from the sales of goods, in particular whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Management are satisfied that the significant risk and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with recognition of an appropriate allowance made.

***Depreciation of property, plant and equipment***

The cost of property, plant and equipment is depreciated on a straight-line basis over their economic useful lives estimated to be within 3-20 years, net of estimated residual value. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation could be revised. The carrying amount of the property, plant and equipment is stated in Note 10(i) to the financial statements.

***Impairment of intangible asset***

The Group assesses whether there are any indicators of impairment of all non-financial assets at each reporting date. Intangible asset is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the key assumptions applied in the impairment assessment of intangible asset are given in Note 11 to the financial statements.

***Net realisable value of inventories***

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reviews an aged analysis of inventories at each balance sheet date, and makes allowance for obsolete and slow-moving items identified that are no longer suitable for use in production. Management estimates the net realisable value based primarily on the latest invoice prices and current market conditions. The carrying amount of inventories is stated on Note 13 to the financial statements.

***Provision for income tax***

The Group estimates the potential tax exposure as at year end based on management's best estimates from past queries and assessments by the respective tax authorities. The Group reviews its position at the end of every reporting period for any update from the tax authorities. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 2.2 Functional currency

The functional currency of the Group is the Chinese Renminbi ("RMB"). As sales and purchases are denominated primarily in RMB and receipts from operations are usually retained in RMB, management is of the opinion that the RMB reflects the economic substance of the underlying events and circumstances relevant to the Group.

### 2.3 Basis of consolidation

Subsidiaries are companies controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities. In assessing control, potential voting right that presently are exercisable are taken into account.

Investments in subsidiaries are stated in the Company's balance sheet at cost less accumulated impairment losses. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Business combinations are accounted for under the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the income statement in the period of the acquisition.

Minority interest in the net assets of consolidated subsidiaries is identified separately from the Group's equity therein. Minority interest consists of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of those losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Intra-group balances and transactions, and any unrealised income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### 2.4 Foreign currencies

***Foreign currency transactions***

Transactions in foreign currencies are translated at foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at foreign exchange rates ruling at that date. Non-monetary assets and liabilities measured at cost in a foreign currency are translated using exchange rates at the dates of the transactions. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated to RMB at foreign exchange rates ruling at the dates the fair values were determined. Foreign exchange differences arising from translation are recognised in the income statement.

***Presentation currency***

The financial statements of the Group and Company are presented in Chinese Renminbi ("RMB") as the business activities are mainly in the People's Republic of China.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition for its intended use. Subsequent expenditure relating to property, plant and equipment that has already been recognized is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognized in the income statement when incurred. When assets are sold or retired, their cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is provided on a straight-line basis so as to write off items of property, plant and equipment over their estimated useful lives as follows:-

| | Estimated useful lives | Estimated residual value as a percentage of cost |
|---|---|---|
| Property | 20 years | 5% |
| Machinery and tools | 3 – 12 years | 5%~30% |
| Office equipment and furniture | 5 years | 5% |
| Motor vehicles | 6 years | 5% |
| Renovation | 3-5 years | 5% |

Assets under construction represent property, plant and equipment under construction or being installed and are stated at cost less any impairment losses, and are not depreciated. Assets under construction is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

The depreciation methods, estimated useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are recognised in the income statement when the changes arise.

### 2.6 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on a weighted average basis and comprises all costs of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to be incurred to completion and disposal.

Allowance of obsolete, slow-moving or defective inventories is made where necessary.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 2.7 Financial assets

Financial assets within the scope of International Accounting Standards ("IAS") IAS 39 are classified as loan and receivables. When financial assets are recognised initially, they are measured at fair value directly attributable transaction cost. Financial assets are recognised on the balance sheets when, and only when the Group becomes a party to the contractual provisions of the financial instrument. 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.

#### *Loan and receivables*

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loan and receivables. Such assets are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loan and receivable are derecognised or impaired, as well as through the amortisation process.

### 2.8 Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

### 2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits. For the purpose of the statement of cash flows, cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value and excludes cash pledged with financial institutions.

### 2.10 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets excluding inventories are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is charged to the income statement.

#### *Calculation of recoverable amount*

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### *Reversals of impairment*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortisation, if no impairment loss had been recognised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 2.11 Financial liabilities

Financial liabilities including trade and other payables, amount owing to a related party, interest-bearing loans and borrowings are initially stated at fair value less direct attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance expense" in the income statement.

Gains and losses are recognised in the income statement when liabilities are derecognised as well as through the amortisation process.

### 2.12 Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

### 2.13 Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest method.

### 2.14 Research and development expenses

All research costs are charged to the income statement when incurred.

Expenditure incurred on prospect to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intentions to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

### 2.15 Employee benefits

Subsidiaries incorporated in the PRC are required to provide staff pension benefits to their employees under existing PRC legislation. These subsidiaries are required to contribute a certain percentage of their payroll costs to the pension scheme to fund the benefits. The pension funds are managed by government agencies, which are responsible for paying pensions to the retired employees. Contributions under the pension scheme are charged to the income statement as they became payable in accordance with the rules of the pension scheme.

Obligations for contributions to defined contribution pension plans such as the Singapore Central Provident Fund for the Company are recognised as an expense in the income statement when incurred.

### 2.16 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event where it is probable that it will result in an outflow of economic benefits that can be reasonably estimated. Provisions are reviewed at each balance sheet date and adjusted to reflect its current best estimates. If it is no longer probable that an outflow of economic resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 2.17 Taxation

***Current tax***

Current tax assets and liabilities of 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 enacted or substantially enacted at the balance sheet date.

Current taxes are recognised in the income statement.

***Deferred tax***

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are recognised for all temporary differences except where the deferred tax arises from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss; and temporary differences relating to investments in subsidiaries where the timing of the reversal of temporary differences can be controlled by the Group and that it is probable that the temporary differences will not reverse in the foreseeable future; and temporary differences relating to carry-forward of unused tax losses if it is not probable that taxable profit will be available against which the unused tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax asset against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### 2.18 Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs can be measured reliably, revenue is recognised in the income statement as follows:-

*(i)* *Sale of goods*

Revenue from sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowance, trade discounts and volume rebate. Revenue is recognised when goods are delivered to the customers' premises or collected by the customers at the Group's premises which is taken to be the point in time when the customers has accepted the goods and the related risks and rewards of ownerships.

*(ii)* *Interest income*

Interest income is recognised on a time-apportioned basis using effective interest method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 2.19 Operating leases

Rental payable under operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease terms.

### 2.20 Finance expenses

Interest expense and similar charges are expensed in the income statement in the period in which they are incurred. The interest component of interest bearing liabilities is recognised in the income statement using the effective interest method.

### 2.21 Related parties

A party is related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

### 2.22 Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment loss. The land use rights are amortised over the lease term of 50 – 60 years. Amortisation commences when the Group's right to use the land is approved by the local authority.

### 2.23 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects, if any.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 2.24 Government grants

Government grants are not recognised until there is reasonable assurance that the group will comply with the conditions attaching to them and the grants will be received. Government grants relating to the acquisition of non-current assets are recognised as deferred income in the balance sheet and transferred to the income statement on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the group with no future related costs are recognised in the income statement in the period in which they become receivable.

### 2.25 Impairment of financial assets

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

***Assets carried at amortised cost***

If there is objective evidence that an impairment loss on loans and receivables 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 (excluding future credit losses that have not been incurred) 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 impairment loss is recognized in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery. To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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 to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the income statement.

### 2.26 Intangible assets

Intangible assets with indefinite useful lives acquired separately are reported at cost less accumulated impairment loss. Each period, the useful lives of such assets are reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in Note 2.10.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 2.27 Future changes in IFRS

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective for the year ended 31 December 2008. The directors of the Company anticipate that the adoption of such standards and interpretations will not result in material financial impact to the Group's financial statements.

| | |
|---|---|
| IAS 1 *(Revised)* | *Presentation of Financial statements* |
| IAS 16 *(Amendment)* | *Property, Plant and equipment* |
| IAS 19 *(Amendment)* | *Employee Benefits* |
| IAS 20 *(Amendment)* | *Government Grants and Disclosure of Government Assistance* |
| IAS 23 *(Amendment)* | *Borrowing Costs* |
| IAS 27 *(Amendment)* | *Consolidated and Separate Financial statements (2008)* |
| IAS 28 *(Amendment)* | *Investments in Associates* |
| IAS 31 *(Amendment)* | *Interests in Joint Ventures* |
| IAS 32 *(Amendment)* | *Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* |
| IAS 36 *(Amendment)* | *Impairment of Assets* |
| IAS 38 *(Amendment)* | *Intangible Assets* |
| IAS 39 *(Amendment)* | *Financial Instruments: Recognition and Measurement* |
| IAS 40 *(Amendment)* | *Investment Property* |
| IFRS 2 *(Amendment)* | *Share-based Payment* |
| IFRS 3 *(Revised)* | *Business Combinations (2008)* |
| IFRS 5 *(Revised)* | *Non-current Assets Held for Sale and Discontinued Operations* |
| IFRS 7 *(Amendment)* | *Financial Instruments: Disclosures* |
| IFRS 8 | *Operating Segments* |
| IFRIC 13 | *Customer Loyalty Programmes* |
| IFRIC 16 | *Hedges of a Net Investment in a Foreign Operation* |
| IFRIC 17 | *Guidance on Distributions of Non-cash Assets to Owners* |
| IFRIC 18 | *Transfers of Assets from customers* |

## 3. REVENUE

| | Group | |
|---|---|---|
| | **2008 RMB'000** | **2007 RMB'000** |
| Sale of goods | 2,594,224 | 2,177,121 |

## 4. OTHER OPERATING INCOME

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| Gain from sale of consumables and waste materials | 12,395 | 12,085 |
| Gain from disposal of plant and equipment | 3,470 | 5,699 |
| Government grant and subsidies | 14,836 | 7,792 |
| Amortisation of government grant | 1,395 | – |
| Interest income from banks | 436 | 702 |
| Foreign exchange adjustment gain | 886 | – |
| Others | 2,005 | 1,260 |
| | 35,423 | 27,538 |

## 5. FINANCE EXPENSES

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| Interest expenses on trade financing | 474 | 1,032 |
| Interest expense on bank loans | 29,863 | 24,314 |
| Interest expense on bills receivable discounted | 165 | 12 |
| Interest expense – others | 266 | 291 |
| | 30,768 | 25,649 |

## 6. PROFIT BEFORE TAXATION

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| Profit before taxation is arrived at after charging/(crediting):- | | |
| Cost of inventories included in cost of sales | 2,368,046 | 1,914,896 |
| Depreciation of property, plant and equipment | 78,352 | 73,010 |
| Amortisation of land use rights | 543 | 530 |
| Allowance for doubtful trade receivables | 604 | 342 |
| Allowance for inventories | 2,269 | – |
| Amortisation of government grant | (1,395) | – |
| Directors' remuneration | | |
| – directors of the Company | 3,730 | 3,727 |
| Directors' fee | | |
| – directors of the Company | 519 | 527 |
| Interest income from banks | (436) | (702) |
| Foreign exchange adjustment (gain)/loss (net) | (886) | 2,729 |
| Gain on disposal of plant and equipment | (3,470) | (5,699) |
| Operating lease expenses | 10,157 | 5,803 |
| Research and development expenses | 1,553 | 1,799 |
| Staff costs (excluded directors' remuneration) | 99,072 | 93,159 |

## 7. STAFF COSTS

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| Salaries and bonuses | 85,532 | 75,300 |
| Defined contribution pension plan | 6,487 | 11,725 |
| Other staff related costs | 7,053 | 6,134 |
| | 99,072 | 93,159 |

### *Compensation of key management personnel*

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| **Directors of the Company** | | |
| Short-term employee benefits | | |
| – Salaries | 3,720 | 3,720 |
| – Other staff related costs | 10 | 7 |
| Directors' fee | 519 | 527 |
| | 4,249 | 4,254 |

## 8. TAXATION

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| **Current tax** | | |
| Current year | – | 378 |

The tax expense on the results for the financial year differs from the amount of income tax determined by applying the Singapore tax rate of 18% (2007: 18 %) to profit before taxation due to the following factors:-

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| Profit before taxation | 1,283 | 54,882 |
| Income tax at the applicable tax rate of 18% | 231 | 9,879 |
| Effect of different tax rates in country where subsidiaries operate | 90 | 8,232 |
| Deferred tax asset not recognised | 1,831 | – |
| Income exempted from tax | (2,152) | (17,733) |
| Total tax expense | – | 378 |

## 8. TAXATION (Cont'd)

Certain subsidiaries are subject to a concessionary tax rate of 50% on the income tax payable while other subsidiaries' incomes are exempted from income tax. The China Tax Bureau provides that a foreign investment enterprise engaged in production having a period of not less than ten years shall be exempted from income tax for the first two profit-making years and a 50% reduction in the income tax payable for the next three years.

The Group had tax losses of approximately RMB 7.2 million where were available for offsetting against future taxable profits of the subsidiaries from which the losses arose. Deferred tax assets have not been recognised due to uncertainty of their recoverability.

## 9. EARNINGS PER SHARE

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| Basic earnings per share is based on: | | |
| Net profit attributable to ordinary shareholders | 1,467 | 56,426 |

Basic earnings per share is calculated based on the profit attributable to shareholders for the year divided by weighted average number of the Company's ordinary shares.

| | No. of shares | |
|---|---|---|
| | 2008 ('000) | 2007 ('000) |
| Weighted average number of ordinary shares | 396,000 | 393,534 |

## 10(I) PROPERTY, PLANT AND EQUIPMENT

| Company | Office equipment and furniture RMB'000 | Renovation RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2007 | 13 | 131 | 144 |
| Additions | – | – | – |
| At 31 December 2007 | 13 | 131 | 144 |
| Additions | – | 81 | 81 |
| At 31 December 2008 | 13 | 212 | 225 |
| **Accumulated Depreciation** | | | |
| At 1 January 2007 | 1 | 41 | 42 |
| Charge for the year | 3 | 43 | 46 |
| At 31 December 2007 | 4 | 84 | 88 |
| Charge for the year | 2 | 43 | 45 |
| At 31 December 2008 | 6 | 127 | 133 |
| **Carrying amount** | | | |
| At 31 December 2008 | 7 | 85 | 92 |
| At 31 December 2007 | 9 | 47 | 56 |

## 10(i) PROPERTY, PLANT AND EQUIPMENT (Cont'd)

| Group | Property RMB'000 | Machinery and tools RMB'000 | Office equipment and furniture RMB'000 | Motor vehicles RMB'000 | Renovation RMB'000 | Assets under construction RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2007 | 55,696 | 503,816 | 25,605 | 13,246 | 4,128 | 54,186 | 656,677 |
| Additions | 16,192 | 72,778 | 6,092 | 1,284 | – | 159,617 | 255,963 |
| Disposals | (16) | (17,118) | (847) | (294) | – | – | (18,275) |
| Reclassifications | 73,026 | 18,733 | 280 | – | – | (92,039) | – |
| At 31 December 2007 | 144,898 | 578,209 | 31,130 | 14,236 | 4,128 | 121,764 | 894,365 |
| Additions | – | 45,130 | 5,297 | 872 | 82 | 168,098 | 219,479 |
| Disposals | – | (32,790) | (785) | (153) | – | – | (33,728) |
| Reclassifications | 35,230 | 89,279 | 1,472 | – | (3,845) | (122,136) | – |
| At 31 December 2008 | 180,128 | 679,828 | 37,114 | 14,955 | 365 | 167,726 | 1,080,116 |
| **Accumulated Depreciation** | | | | | | | |
| At 1 January 2007 | 1,745 | 81,571 | 9,096 | 5,512 | 736 | – | 98,660 |
| Charge for the year | 5,155 | 59,463 | 5,562 | 2,050 | 780 | – | 73,010 |
| Disposals | (1) | (8,909) | (523) | (226) | – | – | (9,659) |
| At 31 December 2007 | 6,899 | 132,125 | 14,135 | 7,336 | 1,516 | – | 162,011 |
| Charge for the year | 9,894 | 60,437 | 5,848 | 2,129 | 44 | – | 78,352 |
| Disposals | – | (8,798) | (86) | (75) | (1,281) | – | (10,240) |
| At 31 December 2008 | 16,793 | 183,764 | 19,897 | 9,390 | 279 | – | 230,123 |
| **Carrying amount** | | | | | | | |
| 31 December 2008 | 163,335 | 496,064 | 17,217 | 5,565 | 86 | 167,726 | 849,993 |
| 31 December 2007 | 137,999 | 446,084 | 16,995 | 6,900 | 2,612 | 121,764 | 732,354 |

As at 31 December 2008, properties and machineries with carrying amount of RMB 381,181,123 (2007: RMB 298,923,000) have been pledged to secure the interest–bearing loans and borrowings as disclosed in Note 21.

## 10(ii) LAND USE RIGHTS

| | Group | |
|---|---|---|
| | 2008<br>RMB'000 | 2007<br>RMB'000 |
| **Cost** | | |
| At 1 January | 31,600 | 15,904 |
| Additions | 788 | 15,696 |
| Reversal* | (3,951) | – |
| At 31 December | 28,437 | 31,600 |
| **Accumulated amortisation** | | |
| At 1 January | 538 | 8 |
| Additions | 543 | 530 |
| At 31 December | 1,081 | 538 |
| Carrying amount | 27,356 | 31,062 |

(a) Land use rights represented leasehold interests in land located in the PRC where the Group's manufacturing facilities reside. The lease terms expire in years between 2055 to 2057.

(b) At 31 December 2008, the carrying amount of land use rights of RMB 19,540,000 (2007: RMB 7,028,000) were pledged to secure bank loans of the Group.

* The reversal was due to subsequent revision of the cost of the land use right by the PRC government authority.

## 11. INTANGIBLE ASSET

During the financial year, the group acquired technical knowledge and formulations for the production of amino acid from the minority shareholder of a subsidiary, the production of which is expected to commence in year 2009. The intangible asset is measured at cost which represented the fair value at the acquisition date.

The recoverable amount of the intangible asset is determined based on value in use calculations using cash flow projection based on financial budgets cover a 5 year period and extrapolates cash flows for the following five years based on estimate growth rate of 5% per annum. This rate does not exceed the average long-term growth rate for the industry. The pre-tax discount rate used to discount the forecast cash flows is 5.8%.

As at 31 December 2008, no impairment loss was recognised.

## 12. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2008<br>RMB'000 | 2007<br>RMB'000 |
| Unquoted equity shares, at cost | 372,654 | 275,326 |

## 12. INVESTMENTS IN SUBSIDIARIES (Cont'd)

The Company has the following subsidiaries as at 31 December 2008:

| Name of company | Principal activities | Country of incorporation and place of business | Cost of investment held by Company 2008 | Cost of investment held by Company 2007 | Effective percentage of equity and voting power held by the Group 2008 % | Effective percentage of equity and voting power held by the Group 2007 % |
|---|---|---|---|---|---|---|
| 鲁洲生物科技(山东)有限公司 (Luzhou Bio-chem Technology (Shandong) Co., Ltd.) Note 2 | Production and distribution of sweeteners, corn starch and by-products of corn starch. | People's Republic of China | US$36,300,000 (RMB271,664,000) | US$22,050,000 (RMB174,336,000) | 100 | 100 |
| 鲁洲生物科技(辽宁)有限公司 (Luzhou Bio-chem Technology (Liaoning) Co., Ltd.) | Production and distribution of sweeteners, corn starch and by-products of corn starch. | People's Republic of China | US$2,000,000 (RMB15,909,000) | US$2,000,000 (RMB15,909,000) | 100 | 100 |
| 鲁洲生物科技(陕西)有限公司 (Luzhou Bio-chem Technology (Shaanxi) Co., Ltd.) | Production and distribution of sweeteners, corn starch and by-products of corn starch. | People's Republic of China | US$7,000,000 (RMB46,381,000) | US$7,000,000 (RMB46,381,000) | 100 | 100 |
| 鲁洲生物科技(四川)有限公司 (Luzhou Bio-chem Technology (Sichuan) Co., Ltd.) | Production and distribution of sweeteners, corn starch and by-products of corn starch. | People's Republic of China | US$4,463,000 (RMB35,700,000) | US$4,463,000 (RMB35,700,000) | 62.5 # | 62.5 # |
| 山东泓洲化工机械有限公司 (Shandong Hongzhou Chemical Equipment Co., Ltd.) | Provision of engineering services and construction of industrial machinery and equipment | People's Republic of China | US$375,000 (RMB3,000,000) | US$375,000 (RMB3,000,000) | 100 | 100 |
| 山东鲁洲氨基酸有限公司 (Shandong Luzhou Amino Acid Co., Ltd.) Note 3 | Production and sale of amino acids | People's Republic of China | – | – | 55 | – |
| Total: | | | RMB372,654,000 | RMB275,326,000 | | |

Note:
1. All the subsidiaries are audited by Mazars LLP, Singapore for consolidation purposes.
2. The subsidiary has four branch offices: Xiping Branch Office, Yishui Branch Office, Animal Feed Branch Office and Beijing Branch Office.
3. Shandong Luzhou Amino Acid Co., Ltd. is 55% owned by Luzhou Bio-chem Technology (Shandong) Co., Ltd. and 45% owned by Beijing Qingfa Bio-technology Centre. The registered capital of Shandong Luzhou Amino Acid Co., Ltd is RMB 16.0 million.

# The paid up share capital of Luzhou Bio-chem Technology (Sichuan) Co., Ltd is RMB 96.0 million, of which the Company holds 37.2% (RMB 35.7 million) and Luzhou Bio-chem Technology (Shandong) Co., Ltd holds 25.3% (RMB 24.3 million).

## 13. INVENTORIES

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| Raw materials | 66,941 | 127,861 |
| Work-in-progress | 19,387 | 22,972 |
| Finished goods | 94,401 | 106,664 |
| Packaging materials and consumables | 2,024 | 3,295 |
| | 182,753 | 260,792 |

The cost of inventories recognised as an expense includes RMB 2.269 million (2007: RMB Nil) in respect of write-down of inventory to net realisable value.

## 14. TRADE RECEIVABLES

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| Trade receivables | 105,337 | 95,099 |
| Bills receivables | 13,227 | 18,696 |
| Value-added tax recoverables | 3,835 | 4,613 |
| | 122,399 | 118,408 |
| Less: Allowances for doubtful trade receivables | (2,136) | (1,532) |
| | 120,263 | 116,876 |
| The movements in the allowances : | | |
| At 1 January | (1,532) | (1,190) |
| Additions | (604) | (342) |
| At 31 December | (2,136) | (1,532) |

Trade receivables denominated in foreign currency other than the Group's functional currency is as follow:-

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| United States Dollars | 5,068 | 11,898 |

Trade receivables are non-interest bearing and are generally on 30 (2007: 30) days' credit term. The Group does not hold any collateral or credit enhancements over the trade receivables.

The bill receivables, which are non-interest bearing, are issued by banks with average maturity of 2 months (2007: 2 months) as of the balance sheet date.

The Group's primary exposure to credit risk arises through its trade receivables. Customers are largely dispersed, engaged in a wide spectrum of manufacturing activities and sell in a variety of end markets.

## 14. TRADE RECEIVABLES (Cont'd)

The aging of trade receivables at the reporting date is:

| | Gross 2008 RMB'000 | Allowance for doubtful debt 2008 RMB'000 | Gross 2007 RMB'000 | Allowance for doubtful debt 2007 RMB'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Within 30 days | 86,680 | – | 95,841 | – |
| Past due 31 – 90 days | 26,990 | – | 15,428 | – |
| Past due 91 – 180 days | 4,769 | – | 4,411 | (58) |
| Past due 181 – 365 days | 988 | (271) | 1,006 | (726) |
| More than one year | 2,972 | (1,865) | 1,722 | (748) |
| | 122,399 | (2,136) | 118,408 | (1,532) |

The Group's historical experience in the collection of accounts receivable falls within the recorded allowance. Due to these factors, management believes that no additional credit risk beyond the amounts provided for collection losses is inherent in the Group's trade receivables.

The above allowance is individually determined based on collection records and the financial standing of the respective customers.

## 15. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Other receivables | 11,401 | 11,740 | 93 | 4 |
| Deposits | – | 10,914 | – | 35 |
| Prepayments | 7,998 | 6,359 | 60 | 16 |
| Advances paid to suppliers | 8,103 | 22,753 | – | – |
| Dividends receivable from subsidiaries | – | – | 24,374 | 80,460 |
| | 27,502 | 51,766 | 24,527 | 80,515 |

The amounts owing by subsidiaries are unsecured, interest-free and are repayable on demand.

Other receivables, deposits and prepayments denominated in foreign currency other than the Group's functional currency are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Singapore dollars | 153 | 55 | 153 | 55 |

None of the above, other than the other receivables and advances to suppliers, is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 16. AMOUNTS OWING BY SUBSIDIARIES

The amount owing by subsidiaries is non-trade in nature, unsecured, interest free and is repayable on demand.

## 17. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Cash at banks and in hand | 92,730 | 69,601 | 17,720 | 743 |
| Deposits pledged | 11,650 | 5,800 | – | – |
| | 104,380 | 75,401 | 17,720 | 743 |
| Less: deposits pledged | (11,650) | (5,800) | | |
| Cash and cash equivalents for cash flow purposes | 92,730 | 69,601 | | |

Bank deposits of certain subsidiaries were pledged as security to obtain credit facilities (Notes 21 and 24).

Cash at banks earn interest at floating rates based on daily bank deposits rates. The effective interest rate earned for the year was 1% (2007: 1%) per annum.

Cash and cash equivalents denominated in foreign currency at the balance sheet date other than the Group's functional currency are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Singapore dollars | 17,720 | 743 | 17,720 | 743 |

## 18. SHARE CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | No of shares ('000) | RMB'000 | No of shares ('000) | RMB'000 |
| **Fully paid and issued ordinary shares** | | | | |
| At 1 January | 396,000 | 282,820 | 360,000 | 153,022 |
| Issue of new shares for cash | – | – | 36,000 | 129,798 |
| At 31 December | 396,000 | 282,820 | 396,000 | 282,820 |

Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividends.

On 24 January 2007, the Company issued 36,000,000 new ordinary shares at S$0.735 each pursuant to a share placement, thereby raising net proceeds of RMB 129,798,000. The proceeds were used for construction of new plant and machineries and for working purposes. The newly issued shares rank pari passu in all respects with the previously issued shares.

## 19. STATUTORY RESERVE

In accordance with relevant PRC regulations, wholly owned foreign enterprises in PRC are required to appropriate not less than 10% of their respective profit after tax to the statutory reserves until the cumulative balance of the fund reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserves of these enterprises may be used to offset against their respective accumulated losses.

## 20. AMOUNT OWING TO A RELATED PARTY

The amount owing to a related party is non-trade in nature, unsecured, interest free and is repayable as follows:-

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| **Current** | | |
| Within 1 year | 3,221 | 2,520 |
| **Non-current** | | |
| Within 2-5 years | 10,081 | 10,081 |
| After 5 years | 2,520 | 5,040 |
| | 12,601 | 15,121 |

## 21. INTEREST BEARING LOANS AND BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| **Non-current liabilities** | | | | |
| Secured | | | | |
| – Chinese Renminbi | 170,000 | 137,500 | – | – |
| Unsecured | | | | |
| – United States dollars | 28,567 | 52,182 | 28,567 | 52,182 |
| – Chinese Renminbi | 144,716 | 142,342 | – | – |
| | 173,283 | 194,524 | 28,567 | 52,182 |
| | 343,283 | 332,024 | 28,567 | 52,182 |
| **Current liabilities** | | | | |
| Unsecured | | | | |
| – United States dollars | 21,057 | 22,376 | 21,057 | 22,376 |
| – Chinese Renminbi | 124,458 | 60,000 | – | – |
| | 145,515 | 82,376 | 21,057 | 22,376 |
| Total interest bearing loans and borrowings | 488,798 | 414,400 | 49,624 | 74,558 |

## 21. INTEREST BEARING LOANS AND BORROWINGS (Cont'd)

### *Maturity of interest bearing loans and borrowings*

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Within 1 year | 145,515 | 82,376 | 21,057 | 22,376 |
| After 1 year but within 2 years | 343,283 | 302,218 | 28,567 | 22,376 |
| After 2 years but within 3 years | – | 29,806 | – | 29,806 |
| Total interest bearing loans and borrowings | 488,798 | 414,400 | 49,624 | 74,558 |

As at 31 December 2008, the interest bearing loans and borrowings of the Group were secured or guaranteed by the following:-

(i) pledge of certain property, plant and equipment of the Group (Note 10(i));

(ii) pledge of certain land use rights (Note 10(ii)(b));

(iii) pledge of properties owned by related parties;

(iv) pledge of RMB 7.15 million cash deposit (Note 17);

(v) corporate guarantee given by related parties;

(vi) corporate guarantee given by third parties; and

(vii) pledge of ordinary shares of subsidiaries, Luzhou Bio-chem Technology (Liaoning) Co., Ltd, Luzhou Bio-chem Technology (Shandong) Co., Ltd and Luzhou Bio-chem Technology (Shaanxi) Co., Ltd.

The weighted average effective interest rate was 7.27% (2007: 6.4%) per annum.

## 22. DEFERRED INCOME

Deferred income represented the receipt of government grants for the construction of certain of the group's production plants using domestic manufactured plant and equipment. The deferred income is amortised on a straight line basis to the income statement over the expected useful lives of the relevant assets acquired.

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| At 1 January | – | – |
| Addition | 13,658 | – |
| Amortised during the year | (1,395) | – |
| At 31 December | 12,263 | – |
| Amortisation due within: | | |
| Next 12 months – current portion | 1,395 | – |
| More than 12 months – non-current portion | 10,868 | – |
| | 12,263 | – |

## 23. DEFERRED TAXATION

| | Group | |
|---|---|---|
| | 2008<br>RMB'000 | 2007<br>RMB'000 |
| Accelerated tax depreciation | 589 | 589 |

Pursuant to the PRC Enterprise Income Tax Law (中华人民共和国企业所得税法) which became effective on 1 January 2008, dividends distributed by PRC entities for profits generated before 1 January 2008 are exempt from withholding tax. Dividend paid in respect of profits generated on or after 1 January 2008 will be subject to a withholding tax of 5%.

At the balance sheet date, the aggregate amount of temporary differences associated with the undistributed earnings of the subsidiaries for which deferred tax liabilities have not been recognised is approximately RMB 8.9 million. No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 24. TRADE PAYABLES

| | Group | |
|---|---|---|
| | 2008<br>RMB'000 | 2007<br>RMB'000 |
| Trade payables | 138,175 | 158,110 |
| Bills payable | 15,000 | – |
| Value added tax payable | 5,997 | 4,483 |
| | 159,172 | 162,593 |

Trade payables are non-interest bearing and are normally settled on 30 (2007: 30) days credit terms.

The bills payable is non-interest bearing and is payable six months after the balance sheet date.

The bills payable is secured by pledge of RMB 4.5 million cash deposit and by a third party.

## 25. OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2008<br>RMB'000 | 2007<br>RMB'000 | 2008<br>RMB'000 | 2007<br>RMB'000 |
| Other payables | 39,188 | 38,694 | – | – |
| Deposits from customers | 10,010 | 24,521 | – | – |
| Payables for construction of property, plant and equipment | 24,883 | 16,882 | – | – |
| Retention money owing to contractors and suppliers | 9,192 | 10,477 | – | – |
| Accrued operating expenses | 25,643 | 30,270 | 824 | 2,313 |
| Advances from customers | 19,865 | 21,207 | – | – |
| Other tax payables | 2,216 | 726 | – | – |
| | 130,997 | 142,777 | 824 | 2,313 |

Other payables and accruals are non-interest bearing and have an average term of six (2007: six) months.

## 25. OTHER PAYABLES

Other payables and accruals denominated in currencies other than the group's functional currency are as follows:-

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Singapore dollars | 752 | 1,269 | 752 | 1,269 |
| United States dollars | – | 954 | – | 954 |
| | 752 | 2,223 | 752 | 2,223 |

## 26. COMMITMENTS

At 31 December 2008, the Group had capital commitments as follow:

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| Capital expenditure contracted but not provided for in the financial statements:- | | |
| – Commitments in respect of the construction of plant and equipment | 8,748 | 20,194 |

At 31 December 2008, the Group was committed to making the following payments in respect of operating leases on manufacturing and office premises:-

| | Group | |
|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 |
| Within 1 year | 9,617 | 9,743 |
| After 1 year but within 5 years | 9,594 | 19,631 |
| | 19,211 | 29,374 |

The operating leases entered into by the Group are non-cancellable and are generally on a 3 years term with an option to renew for another 3 years term.

## 27. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group has significant transactions with parties on terms agreed between the parties as follows:-

| | Group | |
|---|---|---|
| | 2008<br>RMB'000 | 2007<br>RMB'000 |
| **Transactions with parties in which directors have substantial interest:-** | | |
| Operating lease expenses | 8,000 | 4,500 |

## 28. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments.

The primary format – business segments is based on the Group's management and internal reporting structure. The Group is mainly engaged in one business segment which pertains to the development, manufacturing and sale of sweeteners and corn starch.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

### Geographical segments

| | Group | |
|---|---|---|
| | 2008<br>RMB'000 | 2007<br>RMB'000 |
| Segment revenue by location of customers | | |
| – PRC | 2,258,751 | 1,893,010 |
| – Overseas | 335,473 | 284,111 |
| | 2,594,224 | 2,177,121 |
| Capital expenditures by geographical location of assets | | |
| – PRC | 219,479 | 271,659 |
| | 219,479 | 271,659 |
| Segment assets by geographical location of assets | | |
| – PRC | 1,296,414 | 1,255,499 |
| – Overseas | 23,033 | 12,752 |
| | 1,319,447 | 1,268,251 |

## 29. FINANCIAL INSTRUMENTS

### *Financial risk management objectives and policies*

Risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved.

### *Credit risk*

The credit risk of the Group's financial assets, which comprise cash and cash equivalents, trade receivables and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group has established credit review on new customers and credit terms were only extended to creditworthy customers. It is the Group's policy which requires all customers who wish to trade on credit terms are subject to credit verification procedures. The receivable balances are monitored on a ongoing basis and therefore the Group exposure to bad debts is not significant.

Cash are placed with banks and financial institutions which are regulated.

At the balance sheet date, there is no significant concentration of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

### *Liquidity risk*

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

The Group prepares cash flows projections on a regular basis for its core operations to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, the Group has access to interest-bearing loans and borrowings from financial institutions which is disclosed in Note 21.

## 29. FINANCIAL INSTRUMENTS (Cont'd)

### *Interest rate risk*

The Group's interest rate risk relates to interest-bearing borrowings which comprise borrowings from bank. The Group monitors its funding requirement and the changes in interest rates to ensure that interest payables are within acceptable level. The Company's interest rate risk is mainly limited to fixed rate financial instruments.

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk.

| | Within 1 year RMB'000 | 1 – 2 years RMB'000 | 2 – 3 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2008** | | | | |
| ***Fixed rate*** | | | | |
| Interest-bearing loans and borrowings | 125,000 | 315,956 | – | 440,956 |
| ***Floating rate*** | | | | |
| Interest-bearing loans and borrowings | 20,515 | 27,327 | – | 47,842 |
| **2007** | | | | |
| ***Fixed rate*** | | | | |
| Interest-bearing loans and borrowings | 60,000 | 279,842 | – | 339,842 |
| ***Floating rate*** | | | | |
| Interest-bearing loans and borrowings | 22,376 | 22,376 | 29,806 | 74,558 |

The interest rate on the fixed rate interest-bearing loans and borrowings ranges from 2.4% to 8.22% (2007 2.4% to 7.29%) per annum.

The interest rate on the floating rate interest-bearing loans and borrowings is 1.10% (2007: 1.10%) over and above six months US$ Singapore Inter-Bank Offered Rate ("SIBOR").

Interest on financial instruments subject to floating interest rates is contractually repriced at intervals of less than 6 months. Interests on financial instruments at fixed rates are fixed until the maturity of the instrument. The other financial instruments of the Group, except for cash at bank which bear market rate of interest, are not subjected to interest rate risks.

The Group's policy is to obtain the most favourable interest rate available for its borrowings. Information relating to the Group's interest rate exposure is disclosed in Note 21 to the financial statements.

## 29. FINANCIAL INSTRUMENTS (Cont'd)

### *Sensitivity analysis*

At 31 December 2008, if the floating interest rate for interest-bearing loans and borrowings increase by 100bp, pre-tax profit and net equity would have been RMB 478,000 lower (2007: RMB 746,000 lower). A decrease in 100bp in interest rate would have equal but opposite effect. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

### *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

### *Foreign currency risk*

The Group incurs foreign currency risk on its USD denominated interest bearing loans and borrowings and Singapore dollars ("S$") cash deposits with banks. The Group has an insignificant exposure on its US$ denominated revenue.

The Group does not hedge its trade receivables, cash at bank, other payables and interest bearing loans and borrowings that are denominated in USD and S$.

### *Sensitivity analysis*

At 31 December 2008, if the US$ were weakened 10% against the RMB, with all variables held constant, the pre-tax profit for the year and the net equity would have been RMB 4.3 million (2007: RMB 6.3 million) higher, mainly as a result of foreign exchange gains on translation of US$ currency denominated interest-bearing loans and borrowings. A 10% strengthen against the RMB would have equal but opposite effect.

At 31 December 2008, if the S$ were strengthen 10% against the RMB, with all variable held constant, the pre-tax profit for the year and the net equity would have been RMB 1.7 million higher, mainly as a result of foreign exchange gains on translation of S$ denominated bank deposit. A 10% weaken against the RMB would have equal but opposite effect.

### *Capital management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest-bearing loans and borrowings (including bills payable) less cash and cash equivalents. Total capital is calculated as total equity including minority interests, as shown in the consolidated balance sheet, plus net debts.

## 29. FINANCIAL INSTRUMENTS (Cont'd)

### *Capital management* (Cont'd)

During the financial year ended 31 December 2008, the Group's strategy, which was unchanged from 31 December 2007, was to maintain a gearing ratio of less than one. The gearing ratios at 31 December 2008 and 31 December 2007 were as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Total borrowings | 503,798 | 414,400 |
| Less: cash and cash equivalents | (104,380) | (75,401) |
| Net debt | 399,418 | 338,999 |
| Total equity | 511,806 | 530,251 |
| Total capital | 911,224 | 869,250 |
| Gearing ratio | 0.44 | 0.39 |

The Group and the Company are not subject to externally imposed capital requirements.

### *Fair values*

*Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

| | 2008 RMB'000 | | 2007 RMB'000 | |
|---|---|---|---|---|
| | Carrying amounts | Fair Values | Carrying amounts | Fair values |
| Trade and other receivables | 147,765 | 147,765 | 168,642 | 168,642 |
| Cash and cash equivalents | 104,380 | 104,380 | 75,401 | 75,401 |
| Interest bearing loans and borrowing | 488,798 | 488,798 | 414,400 | 414,400 |
| Trade and other payables | 290,169 | 290,169 | 305,370 | 305,370 |
| Amounts owing to a related party | 15,822 | 13,633 | 17,641 | 15,455 |

*Basis for determining fair value*

The carrying value of trade and other receivables, cash and cash equivalents and trade and other payables approximates their fair values due to the short period to maturity.

The fair value of amount owing to a related party as at 31 December 2008 was estimated via discounting the expected cash flows using a discount rate which approximate the market rate of interest. The fair value is approximately RMB 13,633,000 (2007: RMB 15,455,000). The difference between the carrying amount and the fair value is a gain of approximately RMB 2,189,000 (2007: RMB 2,186,000) which was not recognised in the income statement as such policy has been consistently applied.

## 29. FINANCIAL INSTRUMENTS (Cont'd)

***Fair values*** (Cont'd)

*Interest rates used for determining fair value*

The interest rates used to discount the expected cash flows are as follows:

| | 2008 | 2007 |
|---|---|---|
| Amounts owing to a related party | 4.66% | 6.42% |

## 30. PROPOSED FINAL DIVIDEND

The directors do not recommend a dividend to be paid for the financial year ended 31 December 2008.

# Statistics of Shareholdings

As at 20 March 2009

| | | |
|---|---|---|
| Issued and fully paid–up capital | : | S$57,279,768 |
| Number of shares | : | 396,000,000 |
| Class of shares | : | Ordinary shares |
| Voting rights | : | One vote per share |

The Company does not hold any treasury shares.

## DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 – 999 | 3 | 0.10 | 1,000 | 0.00 |
| 1,000 – 10,000 | 1,505 | 47.52 | 11,170,000 | 2.82 |
| 10,001 – 1,000,000 | 1,637 | 51.69 | 87,338,000 | 22.06 |
| 1,000,001 and above | 22 | 0.69 | 297,491,000 | 75.12 |
| Total | 3,167 | 100.00 | 396,000,000 | 100.00 |

## SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders as at 20 March 2009)

| | Direct Interest | | Deemed Interest | |
|---|---|---|---|---|
| | Number of Shares | % | Number of Shares | % |
| NIU JI XING | 3,900,000 | 0.98 | 157,950,000 | 39.89 |
| FAITH CORPORATE INTERNATIONAL LIMITED | 157,950,000 | 39.89 | – | – |
| TOH BEE YONG | 33,852,000 | 8.55 | – | – |

**Note:**

Mr Niu Ji Xing's deemed interest refers to the 157,950,000 ordinary shares held by Faith Corporate International Limited by virtue of Section 7 of the Companies Act, Cap. 50. The shares held by Niu Ji Xing and Faith Corporate International Limited are registered in the name of Citibank Nominees Singapore Pte Ltd.

## TWENTY LARGEST SHAREHOLDERS

| | Name | No. of Shares | % |
|---|---|---|---|
| 1. | CITIBANK NOMINEES SINGAPORE PTE LTD | 204,655,000 | 51.68 |
| 2. | TOH BEE YONG | 33,852,000 | 8.55 |
| 3. | CHUA ENG ENG | 10,120,002 | 2.56 |
| 4. | DBS VICKERS SECURITIES (SINGAPORE) PTE LTD | 4,661,000 | 1.18 |
| 5. | UOB KAY HIAN PTE LTD | 4,548,000 | 1.15 |
| 6. | TEO RAYMOND | 3,865,000 | 0.98 |
| 7. | LIONG KIAM TECK | 3,736,998 | 0.94 |
| 8. | CIMB-GK SECURITIES PTE. LTD. | 3,211,000 | 0.81 |
| 9. | DBSN SERVICES PTE LTD | 2,956,000 | 0.75 |
| 10. | OCBC SECURITIES PRIVATE LTD | 2,906,000 | 0.73 |
| 11. | DBS NOMINEES PTE LTD | 2,795,000 | 0.71 |
| 12. | TEO POH SUAN | 2,717,000 | 0.69 |
| 13. | BANK OF CHINA NOMINEES PTE LTD | 2,589,000 | 0.65 |
| 14. | HSBC (SINGAPORE) NOMINEES PTE LTD | 2,517,000 | 0.64 |
| 15. | UNITED OVERSEAS BANK NOMINEES PTE LTD | 2,122,000 | 0.54 |
| 16. | CITYBANK CONSUMER NOMINEES PET LTD | 1,685,000 | 0.43 |
| 17. | KIM ENG SECURITIES PTE. LTD. | 1,639,000 | 0.41 |
| 18. | TAN YONG CHIANG OR TAN HUI LIANG | 1,503,000 | 0.38 |
| 19. | RAFFLES NOMINEES PTE LTD | 1,497,000 | 0.38 |
| 20. | KO AH HUEY | 1,467,000 | 0.37 |
| | TOTAL | 295,042,000 | 74.53 |

## FREE FLOAT

Based on the information provided to the Company as at 20 March 2009, approximately 44.13% of the issued ordinary shares of the Company was held by the public. Accordingly, Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has been complied with.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at Eagle Room 3, Level 3, Laguna National Golf & Country Club, 11, Laguna Golf Green, Singapore 488047, on Tuesday, 28 April 2009 at 2.00 p.m. for the following purposes:

## ORDINARY BUSINESS

1. To receive and adopt the audited accounts for the financial year ended 31 December 2008, together with the Reports of the Directors and the Auditors and the Statement by the Directors. **(Resolution 1)**

2. To re-elect the following Directors retiring pursuant to the Article 107 of the Company's Articles of Associations:

   Mr Ong Wei Jin **(Resolution 2)**
   Mr Wang De You **(Resolution 3)**

   Mr Ong Wei Jin will, upon re-election as a Director of the Company, remain as a member of the Audit Committee. The Board considers Mr Ong Wei Jin to be independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

3. To approve the payment of Directors' fees of RMB 518,555.00 for the financial year ended 31 December 2008. **(Resolution 4)**

4. To re-appoint Mazars LLP as the Company's auditors and to authorise the Directors to fix their remuneration. **(Resolution 5)**

5. To transact any other ordinary business that may be properly transacted at an Annual General Meeting.

## SPECIAL BUSINESS

To consider and if thought fit, pass the following resolutions as ordinary resolutions, with or without any modifications:

6. "That pursuant to Section 161 of the Companies Act, Cap. 50, and the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), authority be and is hereby given to the Directors of the Company to:-

   (A) (i) allot and issue shares in the capital of the Company 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 that this authority may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this authority was in force, provided that:-

(1) the aggregate number of shares to be issued pursuant to this authority (including shares to be issued in pursuance of Instruments made or granted pursuant to this authority) does not exceed 50% (or 100%, in the event of a pro-rata renounceable rights issue) of the issued share capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro-rata* basis to the existing shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this authority) does not exceed 20% of the issued share capital of the Company (as calculated in accordance with subparagraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under subparagraph (1) above, the percentage of issued share capital shall be based on the issued share capital of the Company at the time this authority is given, after adjusting for:-

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

  (ii) any subsequent consolidation or sub-division of shares;

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

(4) (unless revoked or varied by the Company in general meeting) this authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law and the Listing Manual to be held, whichever is the earlier."

[See explanatory note (i) below] **(Resolution 6)**

7. "That:

(a) for the purposes of Sections 76C and 76E of the Companies Act, Chapter 50 (the "**Companies Act**"), the exercise by the directors of the Company of all the powers of the Company to purchase or otherwise acquire ordinary shares ("**Shares**") in the issued share capital of the Company not exceeding in aggregate the Prescribed Limit (as hereafter defined), at such price or prices as may be determined by the directors of the Company from time to time up to the Maximum Price (as hereafter defined), whether by way of:

  (i) market purchases (each a "**Market Purchase**") on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") transacted through the Central Limit Order Book (CLOB) trading system, through one or more duly licensed stockbrokers appointed by the Company for the purpose; and/or

  (ii) off-market purchases (each an "**Off-Market Purchase**") effected otherwise than on the SGX-ST in accordance with any equal access scheme as may be determined or formulated by the directors of the Company as they consider fit, such scheme shall satisfy all the conditions prescribed by the Companies Act,

and otherwise in accordance with all other laws, regulations and rules of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "**Share Purchase Mandate**");

(b) the authority conferred on the directors of the Company pursuant to the Share Purchase Mandate may be exercised by the directors of the Company at any time and from time to time during the period commencing from the passing of this Resolution and expiring on the earliest of:

(i) the date on which the next annual general meeting of the Company is held or required by law to be held;

(ii) the date on which Share purchases have been carried out to the full extent of the Share Purchase Mandate; or

(iii) the date on which the authority contained in the Share Purchase Mandate is varied or revoked by an ordinary resolution of shareholders of the Company in general meeting;

(c) in this Resolution:

"**Prescribed Limit**" means 10 percent of the issued ordinary Shares of the Company as at the date of the passing of this Resolution; and "**Maximum Price**" in relation to a Share to be purchased, means an amount (*excluding* brokerage, commissions, stamp duties, applicable goods and services tax and other related expenses) not exceeding:

(i) in the case of a Market Purchase : 105 percent of the Average Closing Price; and

(ii) in the case of an Off-Market Purchase : 120 percent of the Highest Last Dealt Price,

where:

"**Average Closing Price**" is the average of the closing market prices of a Share over the last five (5) Market Days, on which transactions in the Shares were recorded, preceding the day of the Market Purchase, and deemed to be adjusted for any corporate action that occurs after such five-day market period;

"**Highest Last Dealt Price**" means the highest price transacted for a Share as recorded on the Market Day on which there were trades in the Shares immediately preceding the day of the making of the offer pursuant to the Off-Market Purchase;

"**day of the making of the offer**" means the day on which the Company announces its intention to make an offer for the purchase of Shares from Shareholders of the Company stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase; and

"**Market Day**" means a day on which the SGX-ST is open for trading in securities; and

(d) the directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated by this Resolution."

[See explanatory note (ii) below] **(Resolution 7)**

8. "That the Directors of the Company be and are hereby authorised to grant awards in accordance with the provisions of the Luzhou Performance Share Scheme and to allot and issue from time to time such number of fully paid-up shares as may be required to be allotted and issued pursuant to the vesting of awards under the Scheme, provided that the aggregate number of new shares to be allotted and issued pursuant to the Scheme shall not exceed 15 per cent (15%) of the total issued shares from time to time."

[See explanatory note (iii) below] **(Resolution 8)**

BY ORDER OF THE BOARD

**Vincent Lim Bock Hui**
Company Secretary

Singapore
13 April 2009

## EXPLANATORY NOTES:

(i) Ordinary Resolution 6 above, if passed, will empower the Directors from the date of the above meeting until the date of the next Annual General Meeting, to issue shares and convertible securities in the Company up to the amount not exceeding 50% (or 100%, in the event of a pro-rata renounceable rights issue) of the issued shares in the capital of the Company (excluding treasury shares), of which up to 20% (excluding treasury shares) may be issued other than on a pro-rata basis.

(ii) Ordinary Resolution 7 above, if passed, will renew the Share Purchase Mandate to permit the Company to purchase or otherwise acquire its issued ordinary shares on the terms and subject to the conditions of the Resolution. Further details are set out in the letter to shareholders which is enclosed with the Company's Annual Report.

(iii) Ordinary Resolution 8 above, if passed, will empower the Directors of the Company to grant awards and allot and issue fully paid-up shares pursuant to the Luzhou Performance Share Scheme.

## NOTES:

(1) A member of the Company entitled to attend and vote at the Annual General Meeting may appoint not more than two proxies to attend and vote instead of him.

(2) Where a member appoints two proxies, he shall specify the proportion of his shareholding to be represented by each proxy in the instrument appointing the proxies. A proxy need not be a member of the Company.

(3) If the member is a corporation, the instrument appointing the proxy must be under seal or the hand of an officer or attorney duly authorised.

(4) The instrument appointing a proxy must be deposited at the Company's registered office at 88 Amoy Street, Level Three, Singapore 069907, not less than 48 hours before the time appointed for holding the Annual General Meeting.

**IMPORTANT**

1. For investors who have used their CPF monies to buy shares in the capital of Luzhou Bio-chem Technology Limited, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

**LUZHOU BIO-CHEM TECHNOLOGY LIMITED**
(Company Registration No. 200412523N)
(Incorporated in the Republic of Singapore)

# Proxy Form

Annual General Meeting

I/We ______________________________ (Name)

of ______________________________ (Address)

being member/members of LUZHOU BIO-CHEM TECHNOLOGY LIMITED (the "Company"), hereby appoint:

| Name | Address | NRIC/ Passport Number | Proportion of Shareholdings (%) |
|---|---|---|---|
| | | | |

and/or (delete as appropriate)

| Name | Address | NRIC/ Passport Number | Proportion of Shareholdings (%) |
|---|---|---|---|
| | | | |

and my/our proxy/proxies to vote for me/us on my/our behalf, at the Annual General Meeting ("AGM") of the Company, to be held on Tuesday, 28 April 2009 at 2.00 p.m., and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific directions as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the AGM.

| No. | Resolutions relating to: | For* | Against* |
|---|---|---|---|
| | ***Ordinary Business*** | | |
| 1 | Audited accounts for the financial year ended 31 December 2008 and Reports of the Directors and Auditors and Statement by the Directors | | |
| 2 | Re-election of Mr Ong Wei Jin as a Director | | |
| 3 | Re-election of Mr Wang De You as a Director | | |
| 4 | Approval of payment of Directors' fees amounting to RMB 518,555.00 | | |
| 5 | Re-appointment of Mazars LLP as Auditors | | |
| | ***Special Business*** | | |
| 6 | Authority to allot and issue new shares | | |
| 7 | Authority to purchase or otherwise acquire issued shares | | |
| 8 | Authority to grant awards and allot and issue shares pursuant to the Luzhou Performance Share Scheme | | |

* Please indicate your vote "For" or "Against" with a tick (√) within the box provided.

Dated this day of ____________________ , 2009.

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

______________________________
Signature(s) of member(s) or Common Seal

## NOTES

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or two proxies to attend and vote in his stead.

2. Where a member appoints more than one proxy, the proportion of the shareholding to be represented by each proxy shall be specified in this proxy form. If no proportion is specified, the Company shall be entitled to treat the first named proxy as representing the entire shareholding and any second named proxy as an alternate to the first named or at the Company's option to treat this proxy form as invalid.

3. A proxy need not be a member of the Company.

4. Please insert 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, Cap. 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this proxy form will be deemed to relate to all the shares held by you.

5. This proxy form must be deposited at the Company's registered office at 88 Amoy Street Level Three Singapore 069907, not less than 48 hours before the time set for the Meeting.

6. This proxy form must be under the hand of the appointor or of his attorney duly authorised in writing. Where this proxy form is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

7. Where this proxy form is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be duly stamped and deposited with this proxy form, failing which this proxy form shall be treated as invalid.

## GENERAL

The Company shall be entitled to reject a Proxy Form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the Proxy Form. In addition, in the case of shares entered in the Depository Register, the Company may reject a Proxy Form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

**LUZHOU BIO-CHEM TECHNOLOGY LIMITED**
(Company Registration Number: 200412523N)
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