**LUZHOU BIO-CHEM TECHNOLOGY LIMITED**
**annual report 2011**

# Sweetening Results Through Quality

# 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 the PRC 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, amino acids and high fructose corn syrup 55.

**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 products 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 production capacity 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), Henan Lian Hua Tian An Food Co., Ltd. (河南莲花天安食业有限公司), Henan Lian Hua Weijing Co., Ltd (河南莲花味精股份有限公司) and Coca Cola Enterprise Management (Shanghai) Co., Ltd (可口可乐企业管理(上海)有限公司).

# Satisfying demand with variety

Customers demand variety. It's simple and inevitable. Our goal at Luzhou, is to exceed these expectations. We are now seen as a diversified and forward-moving Company as a result of our ability to continually satisfy demand through a wide variety of products.

"Earnings per share on a fully diluted basis rose from 2.8 RMB cents in FY2010 to 13.9 RMB cents for FY2011"

**Mr Niu Ji Xing**
Executive Chairman

# Executive Chairman's Message

## Dear Shareholders,

On behalf of the Board of Directors of Luzhou Bio-Chem Technology Limited ("Luzhou"), I am pleased to present the Group report and financials for the year ended 31 December 2011 (FY2011).

## Overview

Recessionary pressures across global economies and the ongoing European debt crisis impacted Luzhou's performance in FY2011, during which corn prices rose significantly due to a lower global corn supply exacerbated by government stockpiling and adverse weather conditions. Against this backdrop, the Group faced higher competitive pressures as corn derivative producers lowered their selling prices and switched their focus from export sales to domestic demand. Despite these challenges, Luzhou continued to evolve by successfully developing new products and market segments, also capitalising on rising cane sugar prices during the year to strengthen our business margins, ensuring a year of solid profit growth.

## Financial Performance

For the financial year ended 31 December 2011, the Group recorded total revenue of RMB3,905.5 million, a growth of 28.1% from the RMB3,049.3 million posted in FY2010. This was due to good sales returns from newly-developed products such as fructose 55 and low dextrose equivalent (DE) glucose, higher production capacity utilisations across our facilities in China, and new product applications across industries such as pharmaceuticals, plastics and construction. Accordingly, Group margins improved drastically, with net profit rising 741.4% from RMB6.0 million in FY2010 to RMB50.5 million this last year. Earnings per share on a fully diluted basis rose from 2.8 RMB cents in FY2010 to 13.9 RMB cents for FY2011 while net assets backing per ordinary share as at 31 December 2011 rose from 118.6 RMB cents to 132.5 RMB cents. Our year end cash position grew from RMB67.9 million in FY2010 to RMB103.1 million.

# Executive Chairman's Message

## Business Review

New product innovation and development continued to be one of the Group's core growth thrusts for FY2011, particularly with rising market demand for corn refining products such as fructose and its derivatives. To raise our production capacity, we completed the construction of three new production lines for fructose 55 at our Shaanxi, Sichuan and Henan plants, in accordance with the stringent requirements of key customers like Coca Cola and Pepsi Cola. We also incorporated new capabilities to develop products such as low DE glucose and extreme high maltose syrup, as well as specially-customised derivatives such as high DE glucose to meet varying client specifications. In addition to the rise in cane sugar prices, this higher value product mix has enabled the Group to improve our market competitiveness and correspondingly, enhance revenue and profitability.

During the year, Luzhou expanded its domestic product coverage to new applications across a broader market, targeting segments such as pharmaceuticals, cement additives, plastics and building materials among others. We also improved our export capacity, supplying sorbitol, dextrose powder and high DE glucose syrup to key international customers. Concurrently, our efforts to improve our competitive market standing with our principals saw us form solid cooperative partnerships with several notable global food and beverage industry stalwarts.

## Corporate developments

Due to the local government's plans to redevelop our current Liaoning facility site in the Gaowan Economic Zone, the Group will relocate its operations to the Hada Town Industrial Park, and use the opportunity to upgrade its production lines and increase total production capacity. The total cost of the relocation is estimated to be about RMB226 million, which will be offset by government compensation of RMB153 million and RMB17 million worth of equipment to be transfered from our existing site. The remaining RMB56 million will be funded from bank borrowings and internal funds. The Group expects to commence operations in our new facility before the end of 2012.

On 31 January 2012, Luzhou announced the appointment of Mr. Wang De You as Chief Executive Officer of the Company with effect from 1 February 2012. Mr Wang was previously Executive Director of the Company and Group Deputy General Manager. Following Mr Wang's appointment, Mr Niu Ji Xing, Executive Chairman of the Company, who previously assumed the duties of the CEO since September 2009, will relinquish these duties.

## Market outlook

Ongoing uncertainties across global markets are expected to radiate through FY2012, especially with corn prices set to remain high as supply improvements are offset by continued stockpiling by the government. Cane sugar, a competing substitute product, may see prices fall significantly in 2012. Given this market unpredictability, we remain cautious in our outlook for the year, and will continue to focus on serving our customers well through higher-value products such as fructose 55 and fructose 90.

More stringent food safety requirements are also being implemented, which will adversely impact downstream food manufacturers, particularly the smaller companies. Luzhou expects these factors to directly impact our revenues in the year ahead. However, we hold the view that we can find the optimal balance between our production and sales through cooperation with strategic key customers. Working in partnership with them, we hope to continue innovating on products and developing new markets which will enable us to confidently mitigate market risks.

## Strategies for growth

Luzhou emphasis on product innovation is set to continue, with the Group focused on developing applications for higher margin offerings that will lower production costs and raise our market competitiveness. Concurrently, we also plan to incorporate price and product differentiation strategies across our customer base to balance our production and sales volumes efficiently. Our Shandong and Liaoning facilities are located close to seaports, and together with our solid dealings with global partners, will give us a strong competitive edge in pursuing international business opportunities. The Group will also strive to manage business costs, shorten recovery periods for our accounts receivable, and improve the liquidity of our capital. To this end, we also plan to enhance our logistics management capabilities.

## Acknowledgements

Finally, on behalf of the Board of Directors of Luzhou, I would like to thank all our shareholders, customers, business associates and partners who have supported the Group this last year. I would also like to thank the dedicated staff of the Company who diligently strive to ensure our growth strategies are well implemented. With all your continued support, we look forward to addressing the market challenges ahead and delivering another year of growth for the Group in FY2012.

**Mr Niu Ji Xing**
**Executive Chairman**

# 执行主席 致辞

## 尊敬的各位股东

我谨代表鲁洲生物科技有限公司公司董事会呈递集团2011年财务报表及报告。

## 概述

全球经济衰退压力及持续着的欧债危机给鲁洲2011年业绩带来不利影响，在2011年，全球玉米供给不足，加上政府实施玉米存储计划和天气状况恶劣，导致玉米价格显著上涨。在此背景下，集团还面临着同行业竞争加剧压力，因为玉米制品生产商下调售价，并将市场从国际转向国内。尽管面对诸多挑战，鲁洲仍然保持了发展态势，成功开发新产品和新市场，同时借助白砂糖的价格上涨，提高了经营利润，确保了2011年利润的稳定增长。

## 财务业绩

在2011年，集团总销售收入达人民币3905.5百万元，比2010年的人民币3049.3百万元提高了28.1%。这得益于新开发产品的较好销售业绩，如F55果糖和低DE值葡萄糖浆，以及中国工厂产能利用率的提高和产品在制药、塑料和建筑等行业的新应用。相应的，集团利润大幅提高，净利润提高741.4%，从2010年的人民币6百万元提高到2011年人民币50.5百万元。截至2011年12月31日，充分稀释后每股收益从2010年的人民币2.8分提到2011年的人民币13.9分，每股净资产从118.6分提高到2011年12月31日的人民币132.5分。集团年末现金水平从人民币67.9百万元提高到人民币103.1百万元。

## 经营回顾

在2011年，集团业绩增长的主要驱动力之一仍然是新产品开发和革新，尤其是玉米深加工产品的市场需求不断增加，如果糖及其衍生品。为提高产能，我们在陕西工厂、四川工厂和河南工厂新建了三条F55果糖生产线，这些生产线都是严格按照可口可乐和百事可乐这些大客户的标准来建造的。为满足客户的多样化需求，我们还新增了低DE值葡萄糖和超高麦芽糖浆的产能以及高DE值葡萄糖等专门客户化产品的产能。随着蔗糖价格的上涨，这种高附加值的产品组合提高了集团的市场竞争力，进而提高了销售收入和获利能力。

在2011年，鲁洲将其国内产品覆盖面向一些新的行业应用扩展，使得销售市场更为宽泛，应用行业更为广泛，如制药、水泥助剂、塑料制品以及建筑材料等行业。我们还不断提高出口能力，向国际大客户供应山梨醇、口服葡萄糖粉及高DE值葡萄糖浆。同时，我们努力提高在竞争市场的地位，现已与几个国际知名食品和饮料行业中坚企业建立了稳固的合作关系。

## 公司发展

根据当地政府发展规划，我们现在位于高湾经济开发区的辽宁工厂将搬迁至哈达镇工业区，我们将趁此机会对生产线进行升级改造，并提高总产能。搬迁总成本预计在人民币226百万元左右，其中政府会补贴人民币153百万元，价值人民币17百万元的设备会被转移到新工厂使用，剩余人民币56百万元的资金需求将通过银行借款和自有资金解决。集团预计新工厂将在2012年年底前投产运营。

在2012年1月31日，鲁洲公告了委任王德友先生为公司首席执行总裁，自2012年2月1日起生效。王先生原是公司执行董事兼集团副总经理。公司执行主席牛继星先生自2009年9月份以来一直承担着首席执行总裁的职责，王先生上任后，牛先生将不再承担首席执行总裁职责。

## 市场前景

全球市场的持续不确定性预计会影响2012年公司全年的业绩，尤其是政府收储计划的持续导致供给难以增加，玉米价格将持续高位。蔗糖，作为我公司产品的竞争替代品，其2012年价格预期会大幅下降。鉴于市场的不可预见性，我们对2012年前景保持谨慎，会继续致力于为客户提供高附加值产品，如F55果糖和F90果糖。

随着更加严格的食品安全规定的实施，下游食品制造商将受到不利影响，尤其是那些小型公司。鲁洲预计这些因素会直接影响我们2012年销售收入。但是，我们认为，通过与战略大客户的合作，我们能够找到产销之间的最佳平衡点。通过与他们之间的合作伙伴关系，我们有望继续革新产品、开发新市场，这将会使我们增强信心、减小市场风险。

## 成长策略

鲁洲会继续重视产品改良和创新，集团会致力于开发产品在高利润行业的应用，这将降低我们的生产成本、提高市场竞争力。同时，我们也计划在客户间实施价格和产品差异化策略，以有效平衡我们的产销量。我们的山东工厂和辽宁工厂均靠近港口，而且拥有与国际合伙人的稳定合作关系，这将是我们争取国际业务的一个强大竞争优势。集团也将努力控制经营成本、缩短应收账款回收期限、提高资金流动性。此外，我们还计划提高物流管理能力。

## 感谢语

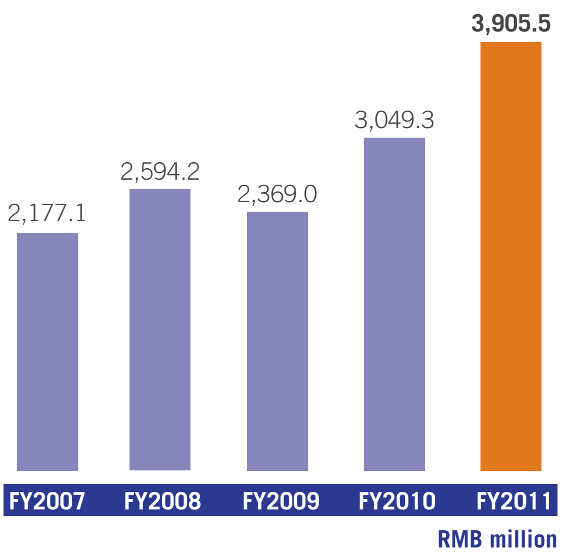
最后，我想代表鲁洲董事会感谢全体股东、客户、业务合伙人一年来对集团的支持。我也想在此感谢为公司勤恳工作、默默奉献着的全体员工，他们一直为集团成长策略的顺利实施而不懈努力着。因为有你们的持续支持，我们有希望在2012年克服各项市场挑战，递交另一份成长业绩。

牛继星先生
执行主席

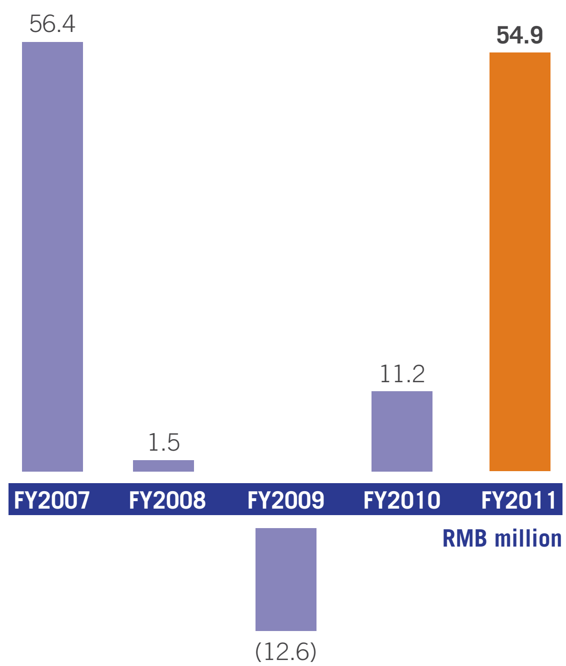
# Financial Highlights

| | 2007 RMB million | 2008 RMB million | 2009 RMB million | 2010 RMB million | 2011 RMB million |
|---|---|---|---|---|---|
| Revenue | 2,177.1 | 2,594.2 | 2,369.0 | 3,049.3 | **3,905.5** |
| Earnings Before Interests, Tax, Depreciation and Amortisation ("EBITDA") | 153.0 | 110.5 | 100.9 | 129.8 | **200.6** |
| Net Profit / (Loss) Before Tax | 54.9 | 1.3 | (12.9) | 6.2 | **61.5** |
| Net Profit / (Loss) After Tax and Non-controlling Interests ("PATNCI") | 56.4 | 1.5 | (12.6) | 11.2 | **54.9** |
| Net Profit / (Loss) Margin (%) | 2.6 | 0.05 | (0.6) | 0.2 | **1.3** |
| **Revenue by Operating Segments (%)** | | | | | |
| - Corn Refining | 99.4 | 94.6 | 89.2 | 91.0 | **89.1** |
| - Animal Feed | – | 5.2 | 9.9 | 8.4 | **9.5** |
| - Others | 0.6 | 0.2 | 0.9 | 0.6 | **1.4** |
| | 100.0 | 100.0 | 100.0 | 100.0 | **100.0** |
| **Revenue by Geographical Segments (%)** | | | | | |
| - PRC | 87.0 | 87.1 | 91.6 | 93.9 | **93.2** |
| - Other Countries | 13.0 | 12.9 | 8.4 | 6.1 | **6.8** |
| | 100.0 | 100.0 | 100.0 | 100.0 | **100.0** |
| **At Year End (RMB million)** | | | | | |
| Net Current Assets | 114.6 | (5.4) | (49.2) | 4.7 | **18.7** |
| Total Assets | 1,268.3 | 1,319.4 | 1,337.6 | 1,574.3 | **1,832.7** |
| Total Equity | 530.3 | 511.8 | 497.5 | 503.5 | **553.9** |
| Total Liabilities | 738.0 | 807.6 | 840.1 | 1,070.8 | **1,278.7** |
| Cash and Cash Equivalents | 75.4 | 104.4 | 66.8 | 71.0 | **103.1** |
| **Per Share (RMB cents)** | | | | | |
| Earnings / (Loss) per Share | 14.3 | 0.4 | (3.2) | 2.8 | **13.9** |
| Net Tangible Asset per Ordinary Share | 125.4 | 117.2 | 114.0 | 116.8 | **132.5** |
| Dividend per Share | 6.8 | – | – | – | **-** |
| **Returns (%)** | | | | | |
| Return on Revenue | 2.60 | 0.05 | (0.60) | 0.20 | **1.30** |
| Return on Shareholders' Equity | 10.60 | 0.25 | (2.88) | 1.19 | **9.10** |
| Return on Total Assets | 4.40 | 0.10 | (1.07) | 0.38 | **2.80** |
| **Ratios** | | | | | |
| - Inventory Turnover | 44 | 31 | 32 | 32 | **30** |
| - Trade Receivables | 15 | 17 | 18 | 16 | **16** |
| - Trade Payables | 27 | 25 | 30 | 32 | **32** |
| - Debt to Equity Ratio (Times) | 0.80 | 0.96 | 0.98 | 1.23 | **1.07** |

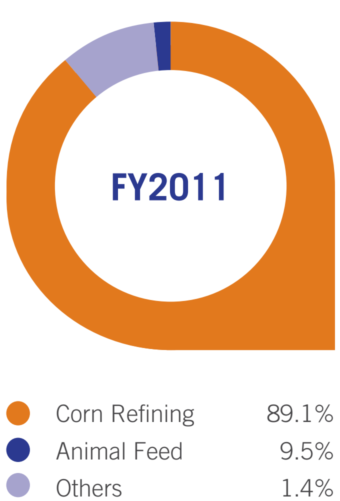
## Revenue



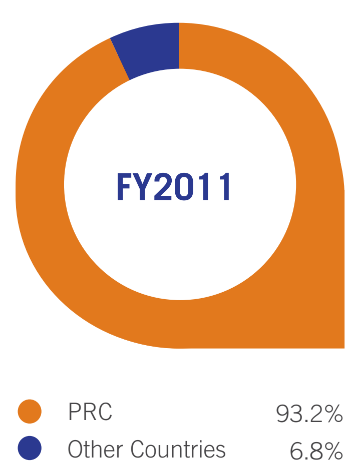

## Net Profit / (Loss) After Tax and Non-controlling Interests ("PATNCI")




## Revenue by Operating Segments




## Revenue by Geographical Segments



# Leading through science & technology

To maintain our competitive edge, we can never stand still. To this extent, our experienced research and development team is constantly striving to develop new products, which is a fundamental requirement to achieve leadership status in our industry.

# Operations Review

Despite global recessionary pressures and corn price fluctuations due to supply inconsistencies, Government stockpiling and demand changes, Luzhou Bio-Chem Technology ("Luzhou") was able to consistently introduce higher-value corn sweetener and derivative variations to its product mix, and capitalise on new product applications across a broader industrial market scope. With cane sugar prices continuing to stay high, this helped the Group record positive growth for FY2011. For the year in review, Group profitability rose 741.4% to RMB50.5 million, on the back of a 28.1% growth in revenue to RMB3,905.5 million.

Segmentally, volume sales for the Group's corn refining segment rose 13.9% in FY 2011, with total sales up 89.1% to RMB3,479 million and net profit 16.3% higher y-o-y. This growth was due to increases in the selling prices of the Group's corn refining products resulting from higher cane sugar prices, as well as the emphasis on higher margin corn sweetener variations. For our animal feed segment, volume sales improved 32.0%, with total sales rising to RMB369 million, a rise of 9.5% over the previous year. Net profit for this segment was 31.4% higher y-o-y, a direct result of a higher demand for meat products domestically as well as inflationary pressures on meat prices.


Fructose workshop heterogeneous procedure and decoloring and filtration working procedure


Ultrafiltration film for amino acid production


Fructose workshop evaportor

# Operations Review

During the year, Luzhou invested in several new production lines to enhance its corn refining capabilities and help the Group capitalise on increasing market demand for corn sweeteners such as fructose 55 and fructose 90. Leveraging these improvements, Luzhou has raised its total plant utilisation rate from 76.1% to 82.4%, with significant increases from its Sichuan, Shaanxi and Henan facilities. Concurrently, Luzhou has also reduced its production scope of underperforming products such as maltose syrup and liquid starch as part of consolidation efforts to improve the Group's margins and overall profitability.

The Group's continued focus on product and process innovation helped it achieve better cost efficiencies over the year which, in turn, improved the market competitiveness of its corn sweeteners. A new acid production method was introduced to produce traditional corn sweeteners using existing equipment and facilities. Concurrently, advanced processing techniques helped Luzhou successfully introduce new products such as extreme high maltose syrup and extreme high glucose syrup for the F&B industry, as well as new applications of maltose dextrine for use as cement additives. These milestones have helped the Group better rationalise its product mix to maximise returns while catering to a wider range of customer demands.

To support its product and industry expansion strategies, Luzhou continued to actively restructure and consolidate its operational scope to maximise resource utilisations, improve customer interactions and enhance process efficiencies. Among other things, the Group's sales function is now product-segmented to emphasis a sharper focus on individual products, while a new customer support function was introduced during the year to help Luzhou provide value creation for key clients in the form of comprehensive after-sales service and technical support.

Looking to the year ahead, Luzhou expects that the Chinese government to continue

Fructose workshop ion exchange system


Biological research and development centre

implementing its corn purchase policy in areas like Inner Mongolia, Liaoning, Jilin and Heilongjiang to build on its annual stockpile. Accordingly, domestic corn prices are still expected to rise over the year as the supply of corn decreases. However, consistent demand by derivative manufacturers like Luzhou are expected to stabilise prices until new crop supplies are introduced to the market.

With more downstream corn derivative manufacturers expected to enter Luzhou's competitive framework going forward, the Group is actively fine-tuning its processes, product mix and customer engagement. This is to ensure it is well-placed to capitalise on growing demand for corn sweeteners not only in mainstream food and beverage products, but also in various innovative applications across multiple industry segments.

In terms of its product mix, Luzhou is committed to developing higher value corn sweeteners and managing production costs to improve the Group's overall margins. In this regard, it will continue to innovate and develop new applications that will extend the scope of its products. To date, the Group is already supplying its low DE glucose syrup to the vegetable fat powder industry, its extreme high maltose syrup to the moichi industry, and its maltose dextrine to the construction industry for use in cement additives.

The Group's new facility in Liaoning is expected to commence operations in the second half of FY 2012. Luzhou is also systematically improving its equipment and capabilities across its other plants to boost capacities and enhance its margins. Concurrently, it is also leveraging its strong financial standing, respectable market position and solid relations with customers like Coca Cola and Pepsi Cola to extend its global and domestic customer base. The Group has already set up dealing departments in several major Chinese cities and selected countries internationally, to oversee the development and maintenance of untapped small to medium customers in these areas.

The uncertain global economy aside, Luzhou will continue to pursue opportunities designed to take full advantage of the market potential for its products, particularly their applicability in current and new applications. The Group also remains alert to its competitive position, and will implement growth strategies to improve its product mix, capacity utilisation and cost management to maintain its competitive edge. Barring unforeseen circumstances, the Group expects to improve the quality of its earnings in FY2012.

# Financial Review

## Income

For the financial year ended 31 December 2011, Luzhou recorded year-on-year (y-o-y) revenue growth of 28.1%, from RMB3.0 billion to RMB3.9 billion. This was due to higher selling prices of its corn sweeteners as a result of higher corresponding cane sugar prices.

Corn sweetener prices rose 17.3% for FY2011, with a corresponding 17.6% y-o-y increase in the weighted average price of the Group's products. Annual revenue for this segment rose 25.4%, from RMB2.77 billion in FY2010 to RMB3.48 billion for FY2011. Total sales volumes rose 13.9% y-o-y, from 1.2 million tonnes in FY2010 to 1.33 million tonnes in FY2011. Export revenue also rose 43.6% as compared to FY2010. Total export revenue as a percentage of total revenue increased, from 6.1% in FY2010 to 6.8% last year.

Revenue from Luzhou's animal feeds segment rose from RMB254 million to RMB369 from FY2010 to FY2011, a rise of 45.1%. Concurrently, other revenue rose 185.2% from RMB20 million in FY2010 to RMB57 million in FY2011.

## Gross profit

Strong sales revenue together with improved gross profit margins due to the stronger recovery in revenue (up 28.1% y-o-y) against the increase in cost of sales (up 26.0%), attributed to higher gross profit for the Group in FY2011, up 46.9% y-o-y to RMB439.0 million.

Average selling prices of Luzhou's animal feed products rose due to higher consumer demand, and inflation on China's domestic meat product prices. This segment generated higher gross profit of RMB17.0 million for FY2011 as compared to RMB9.0 million generated in FY2010.

## Operating expenses

In line with the increase in Luzhou's sales revenue, selling and distribution expenses comprising mainly transportation costs also increased, rising 16.6% for FY2011, from RMB154.9 million in FY2010 to RMB180.1 million.

Increases in salary, social insurance contributions and research and development expenses helped push administrative expenses up by 12.6%, from RMB129.3 million in FY2010 to RMB158.6 million in FY2011.

Finance costs increased 20.8%, due to the increase in bank interest rates on the Group's existing loans. These costs rose from RMB34.3 million in FY2010 to RMB41.4 million in FY2011.

The Group's capital allowance utilisation resulted in its effective tax being lower than applying the statutory tax rate. However, income tax expenses still increased due to an increase in Group taxable profit. Tax holidays enjoyed by some of the Group's subsidiaries also expired in FY2011.

## Net income

As a result of higher gross profit, Luzhou's net income increased by RMB44.4 million, from RMB6.0 million in FY2010 to RMB50.4 million in FY2011.

## Assets and liabilities

Current assets increased for FY2011, due to the increase in trade receivables of RMB52.2 million; the increase in inventory of RMB22.7 million; and the increase in cash and cash equivalents of RMB32.1 million. As at end 2011, current assets grew RMB181.9 million to RMB834.0 million, compared to RMB652.2 million for FY2010. The increase in both trade receivables and inventory were in line with the revenue increase, and inventory turnover days declined from 32 days in FY2010 to 30 days in FY2011.

Non-current assets also increased due to additional capital expenditure spent on Luzhou's new Liaoning plant, and the investment in new fructose 55 lines in our Shaanxi, Henan and Sichuan plants. Intangible assets decreased due to the impairment of technical knowledge and formulations in the Group's amino acid production.

As at 31 December 2011, current liabilities increased RMB167.8 million to RMB815.3 million, from RMB647.5 in FY2010. This was due to an increase in trade payables of RMB33.7 million; other payables and accruals of RMB36.9 million (mainly for projects); RMB32.3 million in government compensation for the Liaoning relocation due to a related party; and an increase in deferred income of RMB67.1 million. Trade payable turnover days remained unchanged at 32 days, while the debt equity ratio decreased from 1.23 times at end 2010, to 1.04 times at end 2011 to accommodate loan repayments of RMB41 million.

Non-current liabilities increased by RMB40.2 million as at 31 December 2011, from RMB423.3 million as at end 2010 to RMB463.5 million. This was due mainly to an increase in current deferred income, where the non-current increase was RMB85.4 million, and the current increase comprising the government compensation for the Liaoning relocation was RMB67.1 million.

**Cash Flow**

Luzhou recorded a positive net operating cash flow of RMB198.0 million for FY2011. This comprised operating profit before changes in working capital of RMB209.1 million, adjusted for changes of RMB11.1 million in net negative working capital.

Net cash used in investing activities was RMB76.2 million, to purchase plant and equipment for the new Liaoning plant; invest in new fructose 55 production lines in its Shaanxi, Henan and Sichuan plants; government compensation of RMB175.4 million for the Liaoning plant relocation, and cash inflows of RMB41.1 million from proceeds gained on plant and equipment disposal. Proceeds from government grants included RMB70 million received on behalf of Fushun Luzhou, a related party, of which RMB40 million has been paid to them and RMB30 million is reflected as amount owing to related party.

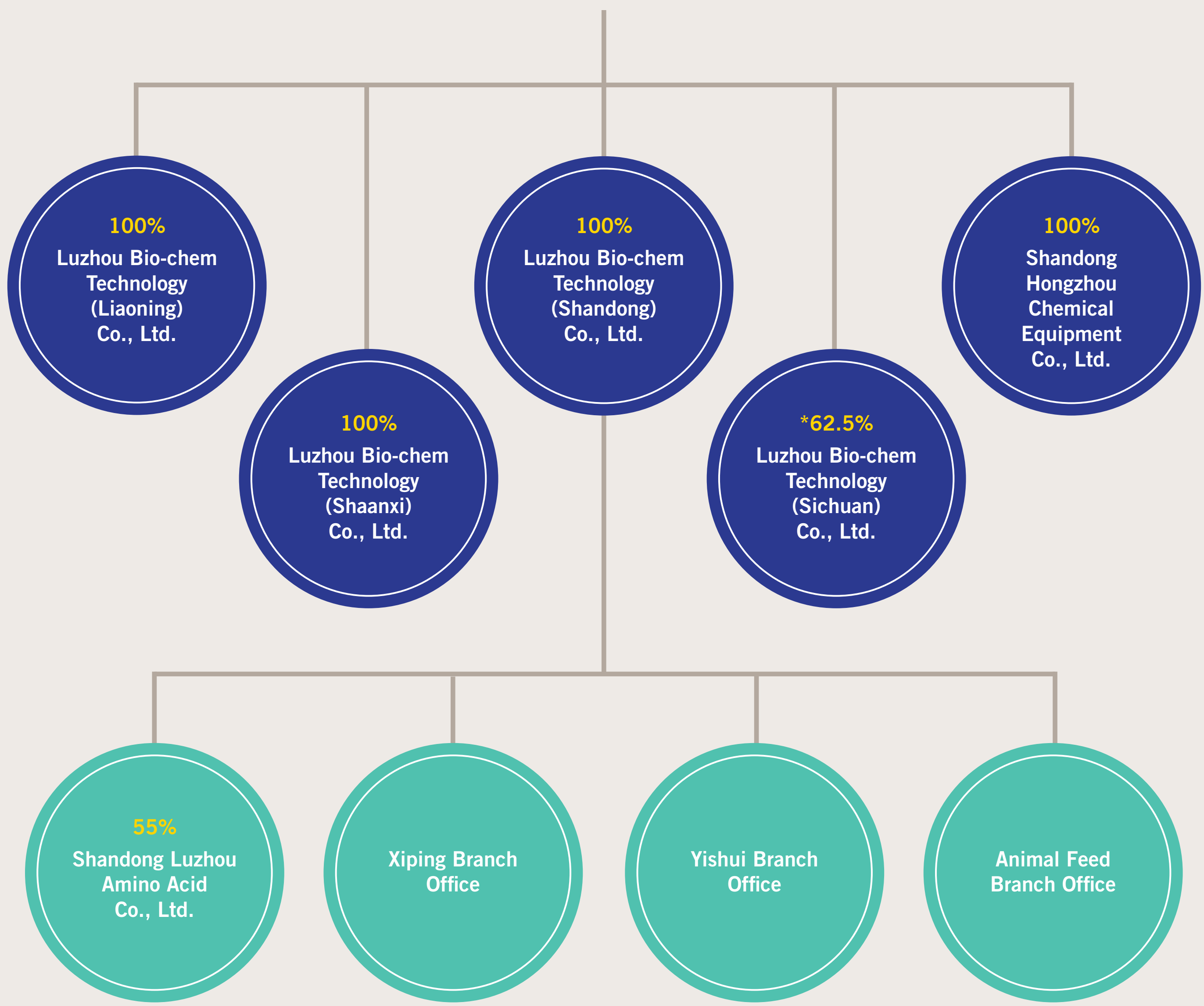
Net cash outflow from financing activities was RMB86.6 million, due to the net repayment of bank loans of RMB41.4 million, and the payment of RMB41.4 million in interest expense.

# Focusing on innovative capabilities

To know where we are going, it helps us to take a look at what's driving us there – what inspires us, fires our enthusiasm and spurs us on everyday. For us it's the spirit of innovation. United by this spirit, we are always focused on innovating our capabilities now and beyond.

# Group Structure

LUZHOU BIO-CHEM TECHNOLOGY LIMITED




*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).*

# Board of Directors


1.


2.


3.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6.

### 1. Niu Ji Xing

Niu Ji Xing is our Founder and Executive Chairman. 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 15 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 Chairman of the China Biotech Fermentation Industry Association, a member of the Executive Council of the China Food Industry Association (中国食品工业协会), Vice Chairman of the Council of China Food Industry Association (sweeteners) (中国食品工业协会糖果专业委员会理事会) and a member of the National Food Industry Entrepreneurs' Council (全国食品工业企业家委员会).

### 2. Wang De You

Wang De You is our Executive Director and Group CEO. He is responsible for the overall management of the Group's business and operations. Before assuming the current position, he was our Executive Director and Group Deputy General Manager. Mr Wang has more than 20 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 a deputy general manager at Shandong Luzhou Food Product Factory from 1999 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, and was accredited as a senior engineer by Light Industry Engineering and Technical Position Advance Accreditation Committee of Shandong Province (山东省轻工工程技术职务高级评审委员会) in April 2010. In 2011, He was conferred the Middle-aged and Young Experts Award by the People's Government of Shandong Province. He was also engaged as a part time lecturer in the Master research programme by China University of Mining and Technology. He is currently a member of the Executive Council of China Biotech Fermentation Industry Association, and of China Starch Industry Association.

### 3. Gao Zhong Fa

Gao Zhong Fa is our Executive Director. Mr Gao is overall responsible for the management of our New Products Department, including Shandong Hongzhou and the corn oil, animal feed and amino acid production plants. He has more than 20 years of experience in the food industry, particularly in the operations of 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 Institute (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 recognized 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).

### 4. Teoh Teik Kee

Teoh Teik Kee is our Lead Independent Director and is a Chartered Accountant by training, and has worked with KPMG Peat Marwick McLintock in London and PricewaterhouseCoopers in Singapore. He also 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, Birmingham, United Kingdom with a Bachelor of Science (Honours) degree in Managerial and Administrative Studies, and is a member of The Institute of Chartered Accountants in England and Wales. He also has a Diploma in Corporate Treasury Management awarded by the Association of Corporate Treasurers in the United Kingdom.

He also serves on the boards of Singapore listed company, Great Group Holdings Limited, and Hong Kong listed company, City e-Solutions Ltd.

### 5. Kong Xiang Chao

Kong Xiang Chao is our Independent Director. 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.

### 6. 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 China XLX Fertiliser Ltd and Conscience-food Holdings Limited.

# Senior Management

**Zhang Ke**

Zhang Ke is our Group Deputy General Manager, and is primarily responsible for the management of the administration, human resource, internet and information technology functions of our Group. He started his career with Shandong Luzhou in April 1997 as a sales supervisor and became a sales manager in 1999. From 2000 to 2004, he was the Deputy General Manager of Shandong Luzhou, before being promoted to General Manager of Hunan Taoyuan. In 2005, he was appointed the General Manager of Luzhou Bio-chem Technology (Shaanxi) Co., Ltd. Before assuming the current position, he was the General Manager of our Group's Animal Feed Branch Office.

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

**Li Na**

Li Na is our Group Senior Finance Manager and is currently responsible for the accounting, reporting, financing and other financial functions of our Group. Ms Li joined Shandong Luzhou Food Group Co. Ltd. in August 1999 as an accountant and was subsequently promoted to the position of finance manager in May 2002. She joined our Group in 2005 following the restructuring exercise undertaken in connection with our Company's initial public offering. Ms Li participated in the successful implementation of the SAP accounting system by our Group. Ms Li holds a diploma in accountancy.

**Niu Ji Chao**

Niu Ji Chao is the General Manager of our Production Department. He is responsible for the management of our engineering operations and sweetener production plant operations. 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 in 2005, he had been the deputy general manager and chief engineer of Shandong Luzhou from February 2003. Before assuming the current position, he was the Goup's Chief Engineer.

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 of Finance and he is assisting our Group Senior Finance Manager in overseeing the finance matters and corporate finance function of the Group. He has over 17 years of banking experience in DBS Bank in the area of trade finance, international banking, individual banking and enterprising 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 matters. 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 major in Accounting and Financial Management from the University of Sheffield.

**Mao De Qing**

Mao De Qing is the General Manager of our Group's Sales & Marketing Department, primarily responsible for managing the sales and marketing of our sweetener related products. 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. Mao De Qing was deputy general manager of Shandong Luzhou from September 2004 and subsequently our Group Deputy General Manager (Sales and Supply). Before assuming the current position, he was the General Manager of our Yishui Branch Office. He has received formal education up to pre-University level.

# Corporate Information

## Board of Directors

Niu Ji Xing *(Executive Chairman)*
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

18 Cross Street
#07-11 China Square Central
Singapore 048423

## Singapore Office

8 Burn Road
#07-09
Trivex
Singapore 369977
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.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

## Auditors

Mazars LLP
133 Cecil Street #15-02
Keck Seng Tower
Singapore 069535
Partner in charge: Mr Choo Chai Leong (appointed 2007)

## Legal Advisor

Vincent Lim & Associates
18 Cross Street
#07-11 China Square Central
Singapore 048423

## 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 Contact

John Koh
Email: johnkoh@luzhou.sg

# Corporate Governance Report

The Board of Directors (the "**Board**") of Luzhou Bio-chem Technology Limited (the "**Company**", and together with its subsidiaries, the "**Group**") recognises that adherence to the guidelines recommended by the Singapore Code of Corporate Governance 2005 (the "**Code**") would establish good corporate governance practices and offer a high standard of accountability to the shareholders of the Company.

This report sets out the corporate governance practices 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 2011 ("**FY2011**"), 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 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.

In addition to its statutory responsibilities, the principal functions of the Board 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 meets on a quarterly basis and ad-hoc Board meetings are convened as and when circumstances require. In between Board meetings, other important matters will be tabled for 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.

# Corporate Governance Report

The number of meetings held and attendance at the meetings during FY2011 are 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 |
| Wang De You | 4 | 4 | - | - | - | - | - | - |
| Gao Zhong Fa | 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 | 3 | 4 | 3 | 1 | 1 | 1 | 1 |

All directors are given 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 corporate governance practices. All directors who have no prior experience as directors of a listed company will undergo training and/or briefing on the roles and responsibilities as directors of a listed company. The directors are also encouraged to keep themselves abreast of the latest developments relevant to the Group.

**Board Composition and Guidance**

*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:

<u>Executive Directors</u>

| | |
|---|---|
| Niu Ji Xing | Executive Chairman |
| Wang De You | Executive Director and Chief Executive Officer |
| Gao Zhong Fa | Executive Director |

<u>Non-Executive Directors</u>

| | |
|---|---|
| Teoh Teik Kee | Lead Independent Director |
| Kong Xiang Chao | 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 independence of each independent director is reviewed annually by the NC.

The Board has examined its size and is of the view that it is appropriate for effective decision-making, taking into account the scope and nature of the operations of the Group.

The independent directors communicate regularly to discuss matters related to the Group.

The profiles of the directors are set out in this Annual Report.

**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 Executive Chairman of the Company and bears executive responsibility for the Group's business performance. He is also responsible for scheduling meetings to be conducted as and when required, setting the agenda for the Board meetings and ensuring the quality, quantity and timeliness of the flow of information between the Management, the Board and shareholders.

Mr Wang De You is the Chief Executive Officer ("**CEO**") who oversees the day-to-day management of the business, including operations and the execution of business strategies.

The Board is of the view that with the current executive management team and the establishment of the three Board committees, there are adequate safeguards in place to ensure unfettered decision-making, as well as to prevent an uneven concentration of power and authority in a single individual.

In view that the Executive Chairman and the CEO are both part of the executive management team, Mr Teoh Teik Kee had been appointed as the lead independent director and he is available to shareholders where they have concerns which contact through the normal channels of the Executive Chairman or CEO has failed to resolve or for which such contact is inappropriate.

**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.

# Corporate Governance Report

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 Chairman | 17 November 2004 | 28 April 2011 | None | None |
| Gao Zhong Fa | Executive Director | 13 May 2005 | 28 April 2010 | None | None |
| Wang De You | Executive Director | 13 May 2005 | 28 April 2009 | None | None |
| Kong Xiang Chao | Independent Director | 13 May 2005 | 28 April 2010 | None | None |
| Teoh Teik Kee | Lead Independent Director | 13 May 2005 | 28 April 2011 | Great Group Holdings Limited<br>City e-Solutions Ltd | ecoWise Holdings Limited |
| Ong Wei Jin | Independent Director | 13 May 2005 | 28 April 2009 | China XLX Fertiliser Ltd | NTI International Ltd |

According to Article 107 of the Company's Articles of Association, Mr Wang De You and Mr Ong Wei Jin 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 in 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 reflected in the overall performance of the Group. The Board ensures that the Company is in compliance with applicable laws and the Board members act in good faith, with due diligence and care in the best interests of the Company and its shareholders.

The NC is responsible for assessing the effectiveness of the Board as a whole and the contribution by each individual director to the effectiveness of the Board. The NC proposes objective performance criteria which are approved by the Board. The performance criteria include factors such as risk management and internal control, and financial performance indicators as well as share price performance.

The performance criteria are not subject to changes from year to year. Nonetheless, 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 fulfil 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 Secretary and the Management at all times. The Company Secretary facilitates information flow within the Board and its committees. The Company Secretary attends all Board meetings and meetings of the Board committees and ensures that the Company complies with the requirements of the Companies Act and the SGX-ST Listing Manual. The minutes of all Board and 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 for 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, covering all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind;
- in the case of service contracts of directors, reviewing and recommending to the Board the terms of renewal of the service contracts; and
- considering the various disclosure requirements for directors' and key executives' remuneration, particularly those required by regulatory bodies such as the SGX-ST, and ensuring 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 (save for the CEO) are not entitled to receive any profit-sharing performance bonus.

The Company has entered into service agreements with the executive directors. The service agreements are for an initial period of three years and are automatically renewed thereafter on a year-to-year basis on such terms and conditions as the parties may agree. The service agreements provide for termination by either 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.

# Corporate Governance Report

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 2011:

| Remuneration bands | Base salary(1) % | Variable or performance-related bonus % | Directors' fees(2) % | Other benefits % | Total % |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| ***Above S$250,000 and up to S$500,000*** | | | | | |
| Niu Ji Xing | 100 | - | - | - | 100 |
| ***Up to S$250,000*** | | | | | |
| Gao Zhong Fa | 100 | - | - | - | 100 |
| Wang De You | 100 | - | - | - | 100 |
| Kong Xiang Chao | - | - | 100 | - | 100 |
| Teoh Teik Kee | - | - | 100 | - | 100 |
| Ong Wei Jin | - | - | 100 | - | 100 |
| **Executive Officers** | | | | | |
| ***Up to S$250,000*** | | | | | |
| Zhang Ke | 51.4 | 48.6 | - | - | 100 |
| Wang Xiang De(3) | 100.0 | - | - | - | 100 |
| Li Na(3) | 51.4 | 48.6 | - | - | 100 |
| Niu Ji Chao | 51.7 | 48.3 | - | - | 100 |
| Mao De Qing | 51.7 | 48.3 | - | - | 100 |
| Koh Pee Keat | 92.5 | 7.5 | - | - | 100 |

**Notes:-**

(1) Salary is inclusive of salary, allowances, Central Provident Fund contributions and pension funds.
(2) Directors' fees are subject to the approval of the shareholders at the forthcoming AGM.
(3) Wang Xiang De resigned as Senior Finance Manager on 23 February 2011 and Li Na was appointed as Senior Finance Manager on 23 February 2011.

No employee who is an immediate family member of a director or the CEO was paid more than S$150,000 during FY2011.

## 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, financial 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 in providing all members of the Board with balanced and understandable management accounts of the Group's performance, financial 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 Board is of the view that the members of the AC are appropriately qualified to discharge their responsibilities and they have the requisite accounting or related financial management expertise or experience. The AC assists the Board to maintain a high standard of corporate governance, particularly by providing an independent review of the effectiveness of the financial reporting, management of financial and control risks, and monitoring of the internal control systems.

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

- reviewing the audit plans of the external auditors and ensuring the adequacy of the Group's system of accounting controls and co-operation given by the Management to the external auditors;
- reviewing the financial statements of the Group before their submission to the Board, and before their announcement;
- reviewing the effectiveness of the internal audit function, and reviewing the scope and results of the internal audit procedures;
- reviewing the cost effectiveness and the independence and objectivity of the external auditors;
- reviewing the nature and extent of non-audit services provided by the external auditors;
- reviewing the assistance given by the Group's officers to the auditors;
- making recommendations to the Board on the appointment, re-appointment and removal of the external auditors;
- reviewing and approving interested person transactions in accordance with the requirements of the SGX-ST Listing Manual; and
- reviewing the adequacy of the Group's internal controls.

# Corporate Governance Report

The AC has the authority to investigate any matter within its terms of reference and full access to and cooperation of the Management. The AC has full discretion to invite any director or executive officer to attend its meetings, as well as access to reasonable resources to enable it to discharge its function properly.

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

For FY2011, the fees paid by the Company to the external auditors for audit and non-audit services amounted to RMB 991,014 and RMB 175,960, respectively. The AC has reviewed all non-audit services provided by the external auditors and is of the opinion that these non-audit services would not affect the independence and objectivity of the external auditors. The AC has recommended to the Board the re-appointment of Mazars LLP Singapore as the external auditors of the Group at the forthcoming AGM.

The Company has complied with Rules 712 and 715 of the SGX-ST Listing Manual in relation to its external auditors.

The Group has implemented a whistle-blowing policy. The policy aims to provide an avenue for employees to raise concerns about misconduct or improprieties in the Group and at the same time assure them that they will be protected from victimization for whistle-blowing in good faith. Cases that are significant are reviewed by the AC for adequacy of investigation actions and resolutions. Contact details of the AC have been made available to all employees.

**Internal Controls**
*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 track of the effectiveness of the Group's system of accounting and internal financial controls, for which the directors are responsible.

Based on the reports submitted by the external and internal auditors and the various management controls put in place, the Board with the concurrence of the AC is satisfied that the internal control systems provide reasonable assurance that, to a material extent, assets are safeguarded and that proper accounting records are maintained and financial statements are reliable.

**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 is satisfied with the adequacy of the Company's internal audit function.

## 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 open communication with shareholders. The Company's quarterly and full year results announcements, analyst briefings and press releases are issued via SGXNET, the Company's website (www.luzhou.com.sg) and the 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 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 respective 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 SGX-ST 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 can be found in 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.

# Corporate Governance Report

## 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, any interested person transaction of 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 transaction. 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 as laid down in Chapter 9, 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 FY2011, are as follows:

| Name of interested person | Aggregate value of all transactions during FY2011 (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 paid to Shandong Luzhou Food Group Co., Ltd | 3,100 | - |
| Rental expenses paid to Fushun Luzhou Amylum Sugar Products Co., Ltd | 5,200 | - |
| Rental expenses paid to Shaanxi Xingping Luzhou Sugar Products Co., Ltd | 2,100 | - |

### 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 CEO or any director or controlling shareholder, either still subsisting at the end of FY2011 or if not then subsisting, which were entered into since the end of FY2010.

# Financial Statements

# 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 2011.

## 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:

| | Number of ordinary shares with no par value | | | |
|---|---|---|---|---|
| | 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 Executive Chairman, 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 2012.

# Report of the Directors

### 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.

### Share Options

There were no options granted during the financial year to subscribe for unissued shares of the Company and its subsidiaries.

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company and its subsidiaries.

There were no unissued shares of the Company and its subsidiaries under option at the end of the financial year.

### 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) Reviews the audit plans of the external auditors and ensures the adequacy of the Group's system of accounting controls and the co-operation given by the management to the external auditors;

b) Reviews the financial statements of the Group before their submission to the Board, and before their announcement;

c) Reviews legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programs and any reports received from regulators;

d) Reviews the cost effectiveness and the independence and objectivity of the external auditors;

e) Reviews the nature and extent of non-audit services provided by the external auditors;

f) Reviews the assistance given by the Group's officer to the auditors;

g) Nominates external auditors for re-appointment;

h) Reviews the Group's compliance with such functions and duties as may be required under the relevant statutes or the Listing Manual and by such amendments made thereto from time to time;

i) Reviews interested person transactions in accordance with the requirements of the Listing Rules of the SGX-ST; and

j) Reviews the adequacy of the Group's internal controls;

# Report of the Directors

### Audit Committee (Cont'd)

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

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.

### Auditors

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

**Wang De You**
Director

16 March 2012

# Statement by the Directors

In our opinion:-

(a) the accompanying balance sheets, consolidated statement of comprehensive income, statement of changes in equity, and consolidated statement of cash flows together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011 and the results of the business, changes in equity and cash flows of the Group for the year ended on that date,

(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** | **Wang De You** |
| Director | Director |

16 March 2012

# Report of the Independent Auditors

TO THE MEMBERS OF LUZHOU BIO-CHEM TECHNOLOGY LIMITED

## Report on the financial statements

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 2011, the consolidated statement of changes in equity, consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 37 to 83.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act"), and Singapore 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 profit and loss accounts and balance sheets and to maintain accountability of assets.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 of the financial statements that give a true and fair view 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.

### *Opinion*

In our opinion, the consolidated financial statements of the Group and balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011 and of the results, changes in equity and cash flows of the Group for the year ended on that date.

## Report on other legal and regulatory requirements

In our opinion, 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

Partner – Choo Chai Leong

Singapore

16 March 2012

# Consolidated Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

| | Note | Group | |
|---|---|---|---|
| | | **2011 RMB'000** | **2010 RMB'000** |
| **Revenue** | 3 | **3,905,507** | 3,049,297 |
| Cost of sales | | **(3,466,503)** | (2,750,407) |
| **Gross profit** | | **439,004** | 298,890 |
| Other operating income | 4 | **32,739** | 32,207 |
| Selling and distribution expenses | | **(180,661)** | (154,888) |
| Administrative expenses | | **(158,626)** | (129,346) |
| Other operating expenses | | **(29,592)** | (6,366) |
| Finance expenses | 5 | **(41,363)** | (34,251) |
| **Profit before taxation** | 6 | **61,501** | 6,246 |
| Income tax expense | 8 | **(11,049)** | (250) |
| **Profit for the year, representing total comprehensive income for the year** | | **50,452** | 5,996 |
| **Attributable to:** | | | |
| Owners of the company | | **54,922** | 11,167 |
| Non-controlling interests | | **(4,470)** | (5,171) |
| **Profit for the year and total comprehensive income for the year** | | **50,452** | 5,996 |
| **Earnings per share attributable to the owners of the Company (RMB cents per share):** | | | |
| Basic and diluted | 9 | **13.9** | 2.8 |

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

# Balance Sheets

AS AT 31 DECEMBER 2011

| | Note | Group 2011 RMB'000 | Group 2010 RMB'000 | Company 2011 RMB'000 | Company 2010 RMB'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 10 (i) | **972,032** | 887,704 | **223** | 75 |
| Intangible asset | 11 | **-** | 7,200 | **-** | - |
| Land use rights | 10 (ii) | **26,638** | 27,226 | **-** | - |
| Investments in subsidiaries | 12 | **-** | - | **372,654** | 372,654 |
| | | **998,670** | 922,130 | **372,877** | 372,729 |
| **Current assets** | | | | | |
| Inventories | 13 | **328,554** | 305,855 | **-** | - |
| Trade receivables | 14 | **198,216** | 146,033 | **-** | - |
| Other receivables, deposits and prepayments | 15 | **136,967** | 129,221 | **9,977** | 24,488 |
| Cash and cash equivalents | 16 | **103,141** | 71,046 | **3,853** | 24 |
| | | **766,878** | 652,155 | **13,830** | 24,512 |
| Non-current assets classified as held for sale | 17 | **67,144** | - | **-** | - |
| | | **834,022** | 652,155 | **13,830** | 24,512 |
| **Total assets** | | **1,832,692** | 1,574,285 | **386,707** | 397,241 |
| **Equity attributable to owners of the company** | | | | | |
| Share capital | 18 | **282,820** | 282,820 | **282,820** | 282,820 |
| Statutory reserve | 19 | **81,746** | 73,732 | **-** | - |
| Accumulated profits | | **160,100** | 113,192 | **102,774** | 113,244 |
| | | **524,666** | 469,744 | **385,594** | 396,064 |
| **Non-controlling interests** | | **29,280** | 33,750 | **-** | - |
| **Total equity** | | **553,946** | 503,494 | **385,594** | 396,064 |
| **Non-current liabilities** | | | | | |
| Amount owing to a related party | 20 | **5,040** | 7,561 | **-** | - |
| Interest-bearing liabilities | 21 | **360,000** | 400,486 | **-** | - |
| Deferred income | 22 | **97,831** | 14,656 | **-** | - |
| Deferred taxation | 23 | **589** | 589 | **-** | - |
| | | **463,460** | 423,292 | **-** | - |
| **Current liabilities** | | | | | |
| Trade payables | 24 | **319,230** | 285,494 | **-** | - |
| Other payables | 25 | **169,203** | 136,953 | **762** | 1,162 |
| Deferred income | 22 | **2,235** | 2,235 | **-** | - |
| Amount owing to a related party | 20 | **35,917** | 3,616 | **351** | 15 |
| Interest-bearing liabilities | 21 | **216,954** | 219,201 | **-** | - |
| Income tax payable | | **4,603** | - | **-** | - |
| | | **748,142** | 647,499 | **1,113** | 1,177 |
| Liabilities directly associated with non-current asset classified as held for sale | 17 | **67,144** | - | **-** | - |
| | | **815,286** | 647,499 | **1,113** | 1,177 |
| **Total liabilities** | | **1,278,746** | 1,070,791 | **1,113** | 1,177 |
| **Total equity and liabilities** | | **1,832,692** | 1,574,285 | **386,707** | 397,241 |

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

# Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

| | Share capital | Statutory reserve | Accumulated profits | Total attributable to owners of the Company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Group** | | | | | | |
| **At 1 January 2010** | 282,820 | 69,127 | 106,630 | 458,577 | 38,921 | 497,498 |
| Total comprehensive income for the year | - | - | 11,167 | 11,167 | (5,171) | 5,996 |
| Transfer to statutory reserves | - | 4,605 | (4,605) | - | - | - |
| **At 31 December 2010** | 282,820 | 73,732 | 113,192 | 469,744 | 33,750 | 503,494 |
| Total comprehensive income for the year | - | - | 54,922 | 54,922 | (4,470) | 50,452 |
| Transfer to statutory reserves | - | 8,014 | (8,014) | - | - | - |
| **At 31 December 2011** | **282,820** | **81,746** | **160,100** | **524,666** | **29,280** | **553,946** |

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

# Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **61,501** | 6,246 |
| Adjustments for:- | | | |
| Depreciation of property, plant and equipment | 10(i) | **97,143** | 88,780 |
| Amortisation of land use rights | 10(ii) | **588** | 565 |
| Amortisation of government grant | 22 | **(2,235)** | (2,235) |
| Gain on disposal of property, plant and equipment | | **(1,635)** | (2,242) |
| Interest expense | 5 | **41,363** | 34,251 |
| Interest income | 4 | **(397)** | (751) |
| Impairment of intangible asset | 11 | **7,200** | - |
| Impairment of plant and equipment | 10(i) | **5,000** | - |
| Write-down/(Reversal of write-down) of inventories | 13 | **-** | 363 |
| Allowances for doubtful trade receivables | 14 | **598** | 137 |
| **Operating profit before working capital changes** | | **209,126** | 125,114 |
| **Changes in working capital** | | | |
| Inventories | | **(22,699)** | (71,488) |
| Trade receivables | | **(52,780)** | (35,778) |
| Other receivables, deposits and prepayments | | **(30,612)** | (88,710) |
| Amount owing to a related party | | **32,301** | 739 |
| Trade payables | | **33,736** | 93,479 |
| Other payables | | **32,250** | 21,174 |
| Cash deposits released from pledge | | **3,144** | - |
| Cash deposits pledged | | **-** | (144) |
| **Cash generated from operations** | | **204,466** | 44,386 |
| Income taxes paid | | **(6,446)** | (250) |
| **Net cash generated from operating activities** | | **198,020** | 44,136 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 10(i) | **(293,114)** | (139,050) |
| Purchase of land use rights | 10(ii) | **-** | (110) |
| Proceeds from disposal of plant and equipment | | **41,134** | 15,087 |
| Interest income received | | **397** | 751 |
| Proceeds from government grant | | **175,420** | 1,500 |
| **Net cash used in investing activities** | | **(76,163)** | (121,822) |
| **Financing activities** | | | |
| Interest expense paid | | **(41,363)** | (34,251) |
| Amount owing to a related party | | **(2,521)** | (16,881) |
| Proceeds from interest-bearing loans and borrowings | | **423,776** | 375,904 |
| Repayment of interest-bearing loans and borrowings | | **(465,168)** | (240,894) |
| Repayment of finance lease liabilities | | **(1,341)** | (2,070) |
| **Net cash generated from financing activities** | | **(86,617)** | 81,808 |
| **Net increase in cash and cash equivalents** | | **35,240** | 4,122 |
| **Effect of exchange rate changes on cash and cash equivalents** | | **(1)** | (2) |
| **Cash and cash equivalents at beginning of financial year** | | **67,902** | 63,782 |
| **Cash and cash equivalents at end of financial year** | 16 | **103,141** | 67,902 |

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

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

These notes form an integral part of the 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 18 Cross Street, #07-11 China Square Central, Singapore 048423. 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 8 Burn Road, #07-09 Trivex, Singapore 369977.

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

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

The consolidated financial statements of the Group and balance sheet of the Company for the year ended 31 December 2011 were authorised for issue by the Board of Directors on 16 March 2012.

## 2. Summary of Significant Accounting Policies

### 2.1 Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group adopted all the new/revised FRSs that are mandatory for application from that date. The adoption of the new/revised FRSs did not result in significant change to the Group's accounting policies nor any significant impact on these financial statements.

The Standards mandatory for application from 1 January 2011 are as follows:-

| | |
|---|---|
| *FRS 24 (Amendment)* | *Related Party Disclosures* |
| *FRS 32 (Amendments)* | *Classification of Rights Issues* |
| *FRS 101 (Amendment)* | *Limited Exemption from comparative FRS 107 Disclosures for First-time Adopters* |
| *INT FRS 114 (Amendments)* | *Prepayments of a Minimum Funding Requirement* |
| *INT FRS 115* | *Agreements for the Construction of Real Estate* |
| *INT FRS 119* | *Extinguishing Financial liabilities with Equity Requirement* |

*Annual Improvements 2010*, consisting minor amendment to the following Standards and Interpretations:

- *FRS 1* — *Presentation of Financial Statements*
- *FRS 27* — *Transition requirements for amendments arising as a result of Consolidated and Separate Financial Statements*
- *FRS 34* — *Interim Financial Reporting*
- *FRS 101* — *First-time Adoption of Financial Reporting Standards*
- *FRS 103* — *Business Combinations (Effective 1 July 2010)*
- *FRS 107* — *Financial Instruments: Disclosures*
- *INT FRS 113* — *Customer Loyalty Programmes*

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.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

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

The preparation of financial statements in conformity with FRSs 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.

***Impairment of loans and receivables***

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

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 reporting date, the trade receivables, net of allowance, amounted to RMB 198,216,000 (2010: RMB 146,033,000). 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, additional allowance will be required.

***Impairment of non-financial assets***

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details of the key assumptions applied in the impairment assessment of intangible assets, are given in Note 11 to the financial statements.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

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

***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).

***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 reporting 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 in Note 13.

***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.

### 2.2 Functional currency

The functional currency of the Company and its China subsidiaries 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 Foreign currencies

***Foreign currency transactions***

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded at foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at foreign exchange rates ruling at that date. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using exchange rates at the initial dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated to RMB at foreign exchange rates at the date the fair values were determined. Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss for the period.

***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.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2.4 Basis of consolidation

Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Accounting for subsidiaries by the Company

Investments in subsidiaries are stated in the Company's balance sheet at cost less accumulated impairment losses.

Business combinations from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses are unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- De-recognises the carrying amount of any non-controlling interest;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services received.

Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.4 Basis of consolidation (Cont'd)

Business combinations from 1 January 2010 (Cont'd)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not to be remeasured until it is finally settled within equity.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition.

Business combinations before 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not assessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that would otherwise be required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Certain of the above-mentioned requirements on application from 1 January 2010 were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further losses were attributed to the Group, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the owners of the Company.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments as at 1 January 2010 have not been restated.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.4 Basis of consolidation (Cont'd)

Non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Company.

The interests of non-controlling shareholders are initially measured at date of original business combination. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

### 2.5 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment and furniture and fixtures are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

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% |

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstance indicate that the carrying value may not be recoverable.

The depreciation method, useful lives and residual values are reviewed, at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.6 Assets under construction

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 are reclassified to the appropriate category of property, plant and equipment when completed and ready for intended use.

When events or changes in circumstances indicate that the carrying value may not be recoverable, the carrying amount of the asset is written down to its recoverable amount.

### 2.7 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 direct material and labour and 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 of completion and the estimated costs necessary to make the sale.

Where necessary, allowance for obsolete, slow-moving or defective inventories is made to adjust the carrying value of inventories to the lower of cost and net realisable value.

### 2.8 Financial assets

Financial assets within the scope of FRS 39 are classified as loan and receivables. When financial assets are recognised initially, they are measured at fair value plus, directly attributable transaction cost. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. 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.

***Loans and receivables***

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognised at fair value. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

***Impairment of loans and receivables***

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

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

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

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.8 Financial assets (Cont'd)

***Impairment of loans and receivables (Cont'd)***

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has 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 profit or loss.

### 2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits but excludes cash that are pledged for credit facilities. They are short-term, highly liquid assets that can be readily convertible to known amounts of cash, which is subject to an insignificant risk of changes in value.

### 2.10 Financial liabilities

Financial liabilities within the scope of FRS 39 are recognised on the balance sheet 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 liabilities at initial recognition.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### 2.11 Research and development cost

Research costs are expenses as incurred. Deferred development costs arising from development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention 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 and the ability to measure reliably the expenditures during the development.

Following initial recognition of the deferred development costs as an intangible asset, it is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of the intangible asset begins when development is complete and the asset is available for use. Deferred development costs have a finite useful life and are amortised over the period of expected sales from the related project on a straight line basis.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.12 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 individual lease term of each land use rights. Amortisation commences when the Group's right to use the land is approved by the local authority.

### 2.13 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

***Calculation of recoverable amount***

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating units exceeds its recoverable amount, the asset is considered impaired and is written down to it recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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, In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

***Reversals of impairment***

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

### 2.14 Employee benefits

The Group participates in the national pension schemes as defined by the laws of the People's Republic of China (PRC). 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 profit or loss as they become payable in accordance with the rules of the pension scheme.

The Group makes contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.15 Provisions

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 2.16 Income taxes

***Current tax***

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates position taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

***Deferred tax***

Deferred tax is provided in full, using the liability method, on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.16 Income taxes (Cont'd)

***Deferred tax (Cont'd)***

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

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 measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 2.17 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangement to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

***(i) Sale of goods***

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

***(ii) Interest income***

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

### 2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction against share capital.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.19 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.

Operating lease

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

### 2.20 Government grants

Government grants are not recognised at their fair value where 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 is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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 profit or loss as "other income" in the period in which they become receivable.

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.21 Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

(i) Has control or joint control over the Company;
(ii) Has significant influence over the Company; or
(iii) Is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is affiliated to the Group and the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
(iii) Both entities are joint ventures of the same third party;
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
(vi) The entity is controlled or jointly controlled by a person identified in (a);
(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

***Key Management personnel***

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity.

### 2.22 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 annually in accordance with the policy stated in Note 2.13.

### 2.23 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in the Notes to financial statements, including the factors used to identify the reportable segments and the measurement basis of segment information.

### 2.24 Non-current assets classified as held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.25 FRSs issued but not yet effective

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 2011. The directors of the Company are of the opinion that the adoption of such standards and interpretations will not result in any material impact to the consolidated financial statements.

| | |
|---|---|
| *FRS 1 (Amendments)* | *Presentation of Items of Other Comprehensive Income* |
| *FRS 12 (Amendments)* | *Deferred Tax: Recovery of Underlying Assets* |
| *FRS 19 (Amendments)* | *Employee Benefits* |
| *FRS 27* | *Separate Financial Statements* |
| *FRS 28* | *Investments in Associates and Joint Ventures* |
| *FRS 101 (Amendments)* | *Severe Hyperinflation and Removal of Fixed Dates for the First-time Adopter – Transfers of Financial Assets* |
| *FRS 107 (Amendments)* | *Disclosures – Transfers of Financial Assets* |
| *FRS 110* | *Consolidated Financial Statements* |
| *FRS 111* | *Joint Arrangements* |
| *FRS 112* | *Disclosure of Interests in Other Entities* |
| *FRS 113* | *Fair Value Measurements* |

<u>Amendments to FRS 1 Presentation of Items of Other Comprehensive Income</u>

The Amendments to FRS 1 Presentation of Items of Other Comprehensive Income (OCI) is effective for financial periods beginning on or after 1 July 2012, with full retrospective application.

The Amendments to FRS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the Amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

<u>Amendments to FRS 12 Deferred Tax: Recovery of Underlying Assets</u>

The Amendments to FRS 12 Deferred Tax: Recovery of Underlying Assets are effective for annual periods beginning on or after 1 January 2012.

The Amendments to FRS 12 apply to the measurement of deferred tax liabilities and assets arising from investment properties measured using the fair value model under FRS 40 Investment Property, including investment property acquired in a business combination and subsequently measured using the fair value model. For the purposes of measuring deferred tax, the Amendments introduce a rebuttable presumption that the carrying amount of an investment property measured at fair value will be recovered entirely through sale. The presumption can be rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time, rather than through sale.

The Group has no investment property at the balance sheet date.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 2. Summary of Significant Accounting Policies (Cont'd)

### 2.25 FRSs issued but not yet effective (Cont'd)

Amendments to FRS 19 Employee Benefits

The amendments to FRS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of FRS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to FRS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Group has no defined benefits plan and terminates benefits at the balance sheet date.

Amendments to FRS 107 Financial Instruments: Disclosures – Transfers of Financial Assets

The amendments to FRS 107 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Group does not anticipate that these amendments to FRS 107 will have any significant effect on the Group's disclosures regarding its existing arrangements for transfers of trade receivables. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

FRS 110 Consolidated Financial Statements and FRS 27 Separate Financial Statements

FRS 110 replaces the control assessment criteria and consolidation requirements currently in FRS 27 and INT FRS 12 Consolidation - Special Purpose Entities.

FRS 110 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. It also provides more extensive application guidance on assessing control based on voting rights or other contractual rights. Under FRS 110, control assessment will be based on whether an investor has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the returns. FRS 27 remains as a standard applicable only to separate financial statements.

FRS 110 will take effect from financial years beginning on or after 1 January 2013, with full retrospective application.

The Group, at the date of this financial statements, do not expect the application of this standard to have any impact to the financial statements.

Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

**2. Summary of Significant Accounting Policies (Cont'd)**

**2.25 FRSs issued but not yet effective (Cont'd)**

FRS 111 Joint Arrangements and Revised FRS 28 Investments in Associates and Joint Ventures

FRS 111 and the revised FRS 28 are effective for financial periods beginning on or after 1 January 2013.

FRS 111 classifies joint arrangements either as joint operations or joint ventures. Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement whereas joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. FRS 111 requires the determination of joint arrangement's classification to be based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. FRS 111 disallows proportionate consolidation and requires joint ventures to be accounted for using the equity method. The revised FRS 28 was amended to describe the application of equity method to investments in joint ventures in addition to associates.

The Group does not have investments in associates and joint ventures at the balance sheet date.

FRS 112 Disclosure of Interests in Other Entities

FRS 112 is effective for financial periods beginning on or after 1 January 2013.

FRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2013.

FRS 113 Fair Value Measurement

FRS 113 is a single new Standard that applies to both financial and non-financial items. It replaces the guidance on fair value measurement and related disclosures in other Standards, with the exception of measurement dealt with under FRS 102 Share-based Payment, FRS 17 Leases, net realisable value in FRS 2 Inventories and value-in-use in FRS 36 Impairment of Assets.

FRS 113 provides a common fair value definition and hierarchy applicable to the fair value measurement of assets, liabilities, and an entity's own equity instruments within its scope, but does not change the requirements in other Standards regarding which items should be measured or disclosed at fair value.

FRS 113 will be effective prospectively from annual periods beginning on or after 1 January 2013. Comparative information is not required for periods before initial application.

The Group is currently estimating the effects of FRS 113 in the period of initial adoption.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 3. Revenue

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| Sale of goods | **3,905,507** | 3,049,297 |

## 4. Other operating income

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| Gain on sale of consumables and waste materials | **14,404** | 12,913 |
| Gain on disposal of plant and equipment | **1,636** | 2,242 |
| Government grant and subsidies | **8,191** | 10,581 |
| Amortisation of government grant (Note 22) | **2,235** | 2,235 |
| Interest income from banks | **397** | 751 |
| Foreign exchange adjustment loss (net) | **(477)** | (1,013) |
| Income from penalties imposed | **1,067** | 1,040 |
| Others | **5,286** | 3,458 |
| | **32,739** | 32,207 |

Government grants relate to monetary incentives received from government agencies in the People's Republic of China for efficient usage of energy, energy conservation, certain interests on loans, new project development, purchase of industrial products, assistance for value-added tax incurred, participation in trade fairs and exhibition and development of technical know-how.

## 5. Finance expenses

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| Interest expenses on trade financing | **520** | 483 |
| Interest expense on bank loans | **39,809** | 31,866 |
| Interest expense on discounted bills receivable | **265** | 230 |
| Interest expense – others | **769** | 1,672 |
| | **41,363** | 34,251 |

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 6. Profit before taxation

| | Group | |
|---|---|---|
| | **2011 RMB'000** | **2010 RMB'000** |
| Profit before taxation is arrived at after charging/(crediting):- | | |
| Audit fees to auditors of the Company | **991,014** | 910,379 |
| Non-audit fees paid to auditors of the Company | **175,960** | 16,210 |
| Total fees paid to auditors of the Company | **1,166,974** | 926,589 |
| Cost of inventories included in cost of sales | **3,466,503** | 2,750,407 |
| Depreciation of property, plant and equipment (Note 10(i)) | **97,143** | 88,780 |
| Amortisation of land use rights (Note 10(ii)) | **588** | 565 |
| Allowance for doubtful trade receivables (Note 14) | **598** | 137 |
| Write-down of inventories (Note 13) | **-** | 363 |
| Amortisation of government grant | **(2,235)** | (2,235) |
| Directors' remuneration (Note 7) | **3,743** | 3,740 |
| Directors' fee (Note 7) | **817** | 795 |
| Impairment of intangible assets (Note 11) | **7,200** | - |
| Impairment of plant and equipment (Note 10(i)) | **5,000** | - |
| Interest income from banks | **(397)** | (751) |
| Foreign exchange adjustment loss (net) | **477** | 1,013 |
| Gain on disposal of plant and equipment (net) | **(1,636)** | (2,242) |
| Operating lease expenses | **14,874** | 12,205 |
| Research and development expenses | **12,958** | 2,524 |
| Staff costs (Note 7) (excluding directors' remuneration) | **157,993** | 130,758 |
| Utilities charges | **83,684** | 68,133 |
| Transportation costs | **116,131** | 104,972 |

Depreciation of property, plant and equipment totalling RMB 71,430,000 (2010: RMB 65,684,000) is recognised as an expense in the cost of sales.

## 7. Staff costs

| | Group | |
|---|---|---|
| | **2011 RMB'000** | **2010 RMB'000** |
| Salaries and bonuses | **130,742** | 110,892 |
| Contribution to defined contribution plan | **19,008** | 12,731 |
| Other staff related costs | **8,243** | 7,135 |
| | **157,993** | 130,758 |

Staff costs totalling RMB 81,404,000 (2010: RMB 66,076,000) were recognised as an expense in the cost of sales.

Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 7. Staff costs (Cont'd)

***Compensation of key management personnel***

| | Group | |
|---|---|---|
| | **2011 RMB'000** | **2010 RMB'000** |
| **Directors of the Company** | | |
| Short-term employee benefits | | |
| - Salaries | **3,720** | 3,720 |
| - Others | **23** | 20 |
| - Directors' fee | **817** | 795 |
| | **4,560** | 4,535 |

## 8. Income tax expense

| | Group | |
|---|---|---|
| | **2011 RMB'000** | **2010 RMB'000** |
| **Current tax** | | |
| Current year | **11,049** | 250 |

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 17% to profit before taxation due to the following factors:-

| | Group | |
|---|---|---|
| | **2011 RMB'000** | **2010 RMB'000** |
| Profit before taxation | **61,501** | 6,246 |
| Tax at the applicable rate of 17% (2010: 17%) | **10,455** | 1,062 |
| Tax effect of:- | | |
| - income exempted from tax | **(725)** | (1,716) |
| - the application of different tax rates in the foreign subsidiaries | **411** | 1,417 |
| - non-deductible expense | **4,147** | 4,590 |
| Deferred tax assets not recognised in prior year | **-** | (17,813) |
| Deferred tax asset arising in current year not recognised | **5,824** | 11,326 |
| Utilisation of deferred tax assets not recognised | **(9,063)** | - |
| Disallowed tax credits | **-** | 1,384 |
| Total tax expense | **11,049** | 250 |

The prevailing tax rate of the subsidiaries residing in the PRC is 25% (2010: 25%). 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.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 8. Income taxes (Cont'd)

***Deferred tax assets not recognised***

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| Unutilised tax losses | **1,660** | 4,509 |
| Unutilised capital allowances | **12,880** | 14,007 |
| Others | **737** | - |
| | **15,277** | 18,516 |

At the balance sheet date, certain subsidiaries in the Group have unutilised tax losses and unutilised capital allowances amounted to RMB 6,640,000 and RMB 51,520,000 (2010: RMB 26,524,000 and RMB 82,388,000) respectively which can be carried forward and used to offset against future taxable income, subject to meeting certain statutory requirements by those companies with unrecognised tax losses and unutilised capital allowances in their respective countries of incorporation. These tax losses and unutilised capital allowances will expire 5 years from the year it arises. Deferred tax assets are not recognised due to uncertainty of its recoverability.

## 9. Earnings per share

Basic and diluted earnings per share is calculated based on the profit attributable to shareholders for the year divided by the number of the Company's ordinary shares as follows:-

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| Basic and diluted earnings per share is based on: | | |
| - Profit for the year attributable to ordinary shareholders (RMB '000) | **54,922** | 11,167 |
| Weighted average number of ordinary shares (per thousands) | **396,000** | 396,000 |
| Earnings per share (cents) | **13.9** | 2.8 |

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 10 (i) Property, plant and equipment

| | Office equipment and furniture | Renovation | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Company** | | | |
| **Cost** | | | |
| At 1 January 2010 and 31 December 2010 | 24 | 300 | 324 |
| Additions | - | 225 | 225 |
| At 31 December 2011 | 24 | 525 | 549 |
| **Accumulated Depreciation** | | | |
| At 1 January 2010 | 10 | 178 | 188 |
| Charge for the year | 5 | 56 | 61 |
| At 31 December 2010 | 15 | 234 | 249 |
| Charge for the year | 5 | 72 | 77 |
| At 31 December 2011 | 20 | 306 | 326 |
| **Carrying amount** | | | |
| At 31 December 2011 | 4 | 219 | 223 |
| At 31 December 2010 | 9 | 66 | 75 |

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 10 (i) Property, plant and equipment (Cont'd)

| | Property | Machinery and tools | Office equipment and furniture | Motor vehicles | Renovation | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Group** | | | | | | | |
| **Cost** | | | | | | | |
| At 1 January 2010 | 231,202 | 803,592 | 41,160 | 17,121 | 453 | 56,097 | 1,149,625 |
| Additions | 3,348 | 57,358 | 2,560 | 808 | - | 74,976 | 139,050 |
| Disposals | (1,168) | (19,650) | (575) | - | - | (225) | (21,618) |
| Reclassifications | 26,808 | 29,225 | 143 | - | - | (56,176) | - |
| At 31 December 2010 | 260,190 | 870,525 | 43,288 | 17,929 | 453 | 74,672 | 1,267,057 |
| Additions | 15,277 | 84,600 | 3,382 | 2,188 | 225 | 187,442 | 293,114 |
| Disposals | (84) | (52,847) | (1,560) | (5,118) | - | (2,983) | (62,592) |
| Reclassifications | 9,208 | 67,310 | 188 | - | - | (76,706) | - |
| Reclassified as held for sale (Note 17) | (27,993) | (82,823) | - | - | - | - | (110,816) |
| At 31 December 2011 | 256,598 | 886,765 | 45,298 | 14,999 | 678 | 182,425 | 1,386,763 |
| **Accumulated depreciation and impairment loss** | | | | | | | |
| At 1 January 2010 | 26,977 | 235,605 | 25,008 | 11,426 | 330 | - | 299,346 |
| Charge for the year | 12,248 | 69,479 | 5,180 | 1,817 | 56 | - | 88,780 |
| Disposals | (446) | (7,804) | (523) | - | - | - | (8,773) |
| At 31 December 2010 | 38,779 | 297,280 | 29,665 | 13,243 | 386 | - | 379,353 |
| Charge for the year | 12,771 | 77,620 | 5,047 | 1,633 | 72 | - | 97,143 |
| Impairment loss | - | (5,000) | - | - | - | - | (5,000) |
| Disposals | (20) | (8,674) | (1,210) | (3,189) | - | - | (13,093) |
| Reclassified as held for sale (Note 17) | (5,642) | (38,030) | - | - | - | - | (43,672) |
| At 31 December 2011 | 45,888 | 323,196 | 33,502 | 11,687 | 458 | - | 414,731 |
| **Carrying amount** | | | | | | | |
| At 31 December 2011 | 210,710 | 563,569 | 11,796 | 3,312 | 220 | 182,425 | 972,032 |
| At 31 December 2010 | 221,411 | 573,245 | 13,623 | 4,686 | 67 | 74,672 | 887,704 |

During the financial year, impairment loss recognised in profit or loss of RMB 5,000,000 (2010: Nil) relates to production machineries for certain finished goods no longer produced.

As at the reporting date, properties and machineries with carrying amount of RMB 427,635,000 (2010: RMB 605,974,476) have been pledged to secure the Group's interest-bearing loans and borrowings as disclosed in Note 21.

The carrying amount of machinery and tools and office equipment and furniture held under finance leases at the balance sheet date was RMB 1,355,000 and RMB 1,395,000 respectively (2010: RMB1,950,000 and RMB2,432,000). Leased assets are pledged as security for the related finance lease liabilities (Note 21).

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

### 10 (ii) Land use rights

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| **Cost** | | |
| At 1 January | **29,327** | 29,217 |
| Additions | **-** | 110 |
| At 31 December | **29,327** | 29,327 |
| **Accumulated amortisation** | | |
| At 1 January | **2,101** | 1,536 |
| Additions | **588** | 565 |
| At 31 December | **2,689** | 2,101 |
| **Carrying amount** | | |
| At 31 December | **26,638** | 27,226 |
| **Amounts to be amortised** | | |
| Not later than one year | **588** | 586 |
| Later than one year but not later than five years | **2,352** | 2,344 |
| Later than five years | **23,698** | 24,296 |
| | **26,638** | 27,226 |

(a) Land use rights represented leasehold interests in 5 plots of state-owned land located in the PRC where the Group's manufacturing facilities reside. The lease terms expire between years 2055 to 2057.

(b) At the reporting date, the carrying amount of land use rights of RMB 26,638,000 (2010: RMB 27,226,000) has been pledged to secure bank loans of the Group (Note 21).

### 11. Intangible asset

Intangible asset represents acquired technical knowledge and formulations for the production of amino acid from the non-controlling shareholder of a subsidiary. 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 approved by management for the next 5 years period and extrapolated cash flows for the following 5 years based on estimate growth rate of 2% (2010: 2%) 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 6.56% (2010: 5.81%). The key assumptions for the value in use calculations are those regarding the discount rates that reflect management's estimate of the risks specific to the cash-generating unit. The growth rate is based on industry growth forecasts. Gross margins are based on past year's results adjusted for anticipated efficiency improvements.

As at the reporting date, management have self-assessed impairment of RMB7,200,000 (2010: Nil) on the intangible asset, where management is of the opinion that the technical know-how on amino acid production is unable to generate sufficient returns to the Company.

## Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

### 12. Investments in subsidiaries

| | Company | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| Unquoted equity shares, at cost | **372,654** | 372,654 |

Details of subsidiaries are as follows:

| Name of company | Principal activities | Country of incorporation and place of business | Cost of investment held by the Company | | Effective percentage of equity interest held by the Group | |
|---|---|---|---|---|---|---|
| | | | 2011 | 2010 | 2011 | 2010 |
| 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$36,300,000 (RMB271,664,000) | **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 | 55 |
| | | | **RMB372,654,000** | RMB372,654,000 | | |

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 12. Investment in subsidiaries (Cont'd)

Note:

1. All the subsidiaries are audited by Mazars LLP, Singapore for consolidation purposes.
2. The subsidiary has four branch offices: Beijing Branch Office, Xiping Branch Office, Yishui Branch Office and Animal Feed Branch Office, of which the Beijing Branch Office ceased operations from August 2010 and the closure was confirmed by the relevant authorities on 11 October 2011.
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 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 | |
|---|---|---|
| | **2011 RMB'000** | **2010 RMB'000** |
| Balance sheet | | |
| Raw materials | **148,758** | 160,078 |
| Work-in-progress | **33,167** | 25,440 |
| Finished goods | **144,666** | 118,283 |
| Packaging materials and consumables | **1,963** | 2,054 |
| | **328,554** | 305,855 |
| Statement of comprehensive income | | |
| Inventories recognised in cost of sales inclusive of the following charge:- | | |
| - inventories written-down | **-** | 363 |

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 14. Trade receivables

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| Trade receivables | **178,929** | 137,241 |
| Bills receivables | **20,800** | 6,343 |
| Value-added tax recoverables | **2,764** | 6,128 |
| | **202,493** | 149,712 |
| Allowances for doubtful trade receivables | **(4,277)** | (3,679) |
| | **198,216** | 146,033 |
| **Change in allowances for doubtful trade receivables during the year:** | | |
| At 1 January | **(3,679)** | (3,542) |
| Charge to profit or loss | **(598)** | (137) |
| At 31 December | **(4,277)** | (3,679) |

Trade receivables denominated in currency other than the Company's functional currency are as follows:-

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| United States Dollars | **6,299** | 8,415 |

Trade receivables are non-interest bearing and are generally on 30 days (2010: 30 days) credit term. The Group does not hold any collateral or credit enhancements over the trade receivables.

Bills receivables, which are non-interest bearing, are issued by banks with average maturity of 5 months (2010: 5 months) as at the reporting date. These bills receivables are transferable.

The Group's primary exposure to credit risk arises through its trade receivables. Customers are largely dispersed, engaging in a wide spectrum of manufacturing activities and sell in a variety of end markets. The Group does not hold any collateral over these balances.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 14. Trade receivables (Cont'd)

The aging of trade receivables at the reporting date is as follows:-

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Gross Receivables | Allowances for doubtful debt | Gross Receivables | Allowances for doubtful debt |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Group** | | | | |
| Within 30 days | **169,056** | **-** | 118,925 | - |
| Past due 31 - 90 days | **18,325** | **-** | 22,471 | - |
| Past due 91- 180 days | **9,506** | **-** | 2,443 | - |
| Past due 181 - 365 days | **2,427** | **(1,280)** | 3,701 | (1,696) |
| More than one year | **3,179** | **(2,997)** | 2,172 | (1,983) |
| | **202,493** | **(4,277)** | 149,712 | (3,679) |

The trade receivables that are neither past due nor impaired relate to customers that the Group has assessed to be creditworthy, based on credit evaluation process by management.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivables from the date of credit was initially granted to the reporting date.

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 risks beyond the amounts provided for collection losses is inherent in the Group's trade receivables.

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

## 15. Other receivables, deposits and prepayments

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Other receivables | **30,578** | 14,403 | **1,602** | 114 |
| Government compensations (Note 17) | **47,065** | - | **-** | - |
| Prepayments | **18,961** | 12,788 | **-** | - |
| Advances paid to suppliers | **40,363** | 102,030 | **-** | - |
| Dividends receivable from subsidiaries | **-** | - | **8,375** | 24,374 |
| | **136,967** | 129,221 | **9,977** | 24,488 |

As at 31 December 2011, advances paid to suppliers are mainly for purchase of raw material for production purposes and utilities expenses.

As at 31 December 2010, advances paid to suppliers were mainly for the purchase of corn stock for production purposes and implementation of the fructose projects.

The dividends receivable from subsidiaries are denominated in Chinese Renminbi, unsecured, interest-free and are repayable on demand. During the year, the Company received RMB 15,999,000 (2010: Nil) from the subsidiaries for partial repayment of the dividends receivable.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 15. Other receivables, deposits and prepayments (Cont'd)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Singapore dollars | **1,602** | 113 | **1,602** | 113 |

The above balances relate to receivables with no recent history of default and management is of the view that these receivables are collectible.

## 16. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Cash at banks and in hand | **103,141** | 67,902 | **3,853** | 24 |
| Deposits pledged | **-** | 3,144 | **-** | - |
| | **103,141** | 71,046 | **3,853** | 24 |
| Less: deposits pledged | **-** | (3,144) | | |
| Cash and cash equivalents for consolidated cash flow purposes | **103,141** | 67,902 | | |

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

Cash at banks earn interest at floating rates based on daily bank deposits rates. The effective interest rate earned for the year was 1% (2010: 1%) per annum.

Cash and cash equivalents denominated in currency at the reporting date other than the Company's functional currency are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Singapore dollars | **3,853** | 24 | **3,853** | 24 |

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 17. Non-current assets classified as held for sale

On 2 March 2011, the Group has announced the relocation of one of its production facilities located in Gaowan Economic Zone, Fushun City, Liaoning Province in the People's Republic of China to Hada Town Industrial Park, Dongzhou Area, Fushun City, Liaoning Province in the People's Republic of China following the local Government's plans to redevelop the existing production site.

The new production facility is funded by compensation from the Government of approximately RMB 152,554,000, internally generated funds and through bank borrowings.

The relocation is expected to be completed by May 2012.

The major classes of assets of the production facility classified as held for sale as at 31 December are as disclosed in Note 10(i) – Property, plant and equipment as the line item "reclassified as held for sale" The net book value of these asset amounted to RMB 67,144,000. Consequently, the same amount of compensation received by the Government will be used to set-off the carrying value of these assets, resulting in an addition to deferred income of RMB85,410,000 (Note 22).

## 18. Share capital

| | Group and Company | |
|---|---|---|
| | **2011 RMB'000** | **2010 RMB'000** |
| Fully paid ordinary shares at the beginning and end of year | | |
| 396 million ordinary shares with no par value | **282,820** | 282,820 |

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company without restriction.

## 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 and approvals from the relevant PRC authorities, the statutory reserves of these enterprises may be used to offset against their respective accumulated losses or increase the registered capital of the subsidiary. The reserve is not available for dividend distribution to shareholders.

Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 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 | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Current | | | | |
| Amount due within 1 year | **35,917** | 3,616 | **351** | 15 |
| Non-current | | | | |
| Amount due after 1 year but less than 5 years | **5,040** | 7,561 | **-** | - |
| | **40,957** | 11,177 | **351** | 15 |

The amount owing to a related party by the Group is denominated in Chinese Renminbi. At 31 December 2011, the balances relate to amount of RMB 30,000,000 received from the government on behalf of the related party for the compensation of Liaoning's relocation for the land being owned by the related parties. The remaining amount relates to the purchase of a plant in 2005.

At 31 December 2010, the balances relate to the purchase of a plant in 2005.

## 21. Interest-bearing liabilities

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| **Non-current liabilities** | | |
| Loans and borrowings | **360,000** | 399,800 |
| Finance lease liabilities | **-** | 686 |
| | **360,000** | 400,486 |
| **Current liabilities** | | |
| Loans and borrowings | **216,000** | 217,591 |
| Finance lease liabilities | **954** | 1,610 |
| | **216,954** | 219,201 |
| **Total interest-bearing liabilities** | **576,954** | 619,687 |

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| **Loans and borrowings** | | |
| **Non-current liabilities** | | |
| - Secured | **221,000** | 169,800 |
| - Unsecured | **139,000** | 230,000 |
| **Total non-current liabilities** | **360,000** | 399,800 |
| **Current liabilities** | | |
| - Secured | **76,000** | 90,000 |
| - Unsecured | **140,000** | 127,591 |
| **Total current liabilities** | **216,000** | 217,591 |
| **Total loans and borrowings** | **576,000** | 617,391 |

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 21. Interest-bearing liabilities (Cont'd)

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

| | Group | |
|---|---|---|
| | **2011 RMB'000** | **2010 RMB'000** |
| Within 1 year | **216,000** | 217,591 |
| After 1 year but within 2 years | **360,000** | 399,800 |
| Total interest-bearing loans and borrowings | **576,000** | 617,391 |

As at reporting date, the 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 cash deposit (Note 16);

(v) corporate guarantee given by related parties; and

(vi) corporate guarantee given by third parties.

The loan and borrowings are denominated in the Chinese Renminbi and bears interest at the effective interest rate of 6.48% (2010: 5.37%) per annum.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 21. Interest bearing liabilities (Cont'd)

***Finance lease liabilities***

At the reporting date, the Group has lease agreements for certain office equipment and machinery and tools under finance lease which has lease term of 3 years. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:-

| | Group | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Minimum lease payments | Present value of payments | Minimum lease payments | Present value of payments |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Amount due:- | | | | |
| Within 1 year | **1,059** | **954** | 1,707 | 1,610 |
| After 1 year but within 3 years | **-** | **-** | 820 | 686 |
| Total minimum lease payments | **1,059** | **954** | 2,527 | 2,296 |
| Finance charges | **(105)** | **-** | (231) | - |
| Present value of minimum lease payments | **954** | **954** | 2,296 | 2,296 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | **(954)** | | (1,610) |
| Amount due for settlement after 12 months | | **-** | | 686 |

The effective weighted average rate of the finance lease is 6.16% (2010: 6.16%) per annum. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 22. Deferred income

Deferred income represents receipt of government grants relating to construction of certain production plants using domestically manufactured plant and equipment in the People's Republic of China. The deferred income is amortised to the profit or loss on a straight-line basis over the expected useful lives of the relevant assets. There are no unfulfilled conditions or contingencies attached to these grants.

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| **Cost** | | |
| At 1 January | **22,631** | 21,131 |
| Additions | **85,410** | 1,500 |
| At 31 December | **108,041** | 22,631 |
| **Accumulated amortisation** | | |
| At 1 January | **5,740** | 3,505 |
| Amortised during the year | **2,235** | 2,235 |
| At 31 December | **7,975** | 5,740 |
| **Carrying amount** | | |
| At 31 December | **100,066** | 16,891 |
| **Amortisation due within:** | | |
| Next 12 months - current portion | **2,235** | 2,235 |
| More than 12 months - non-current portion | **97,831** | 14,656 |
| | **100,066** | 16,891 |

The increase in deferred income represents the government compensation for the relocation of Liaoning plant, which will be recognised over the useful lives of the assets when completed and ready for intended use at the new premises (Note 17).

## 23. Deferred taxation

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 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 was effective from 1 January 2008, dividends distributed by PRC entities for profits generated before 1 January 2008 are exempted 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 reporting date, temporary differences in relation to the undistributed earnings of the profitable subsidiaries, for which deferred tax liabilities have not been recognised, is approximately RMB 134,500,000 (2010: RMB 54,400,000). No liability has been recognised in respect of these differences as the Group is able to control the timing of the reversal and it is probable that such differences will not be reversed in the foreseeable future.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 24. Trade payables

Trade payables are denominated in the Chinese Renminbi, non-interest bearing and are normally settled within 30 days (2010: 30 days).

## 25. Other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Other payables | **30,550** | 31,683 | **-** | - |
| Deposits from customers | **5,140** | 8,458 | **-** | - |
| Payables for construction of property, plant and equipment | **48,426** | 21,154 | **-** | - |
| Retention money owing to contractors and suppliers | **6,347** | 9,799 | **-** | - |
| Accrued operating expenses | **47,125** | 37,085 | **762** | 1,162 |
| Advances from customers | **29,711** | 27,665 | **-** | - |
| Other tax payables | **1,904** | 1,109 | **-** | - |
| | **169,203** | 136,953 | **762** | 1,162 |

Other payables and accruals are non-interest bearing and have an average repayment term of 6 months (2010: 6 months).

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Singapore dollars | **762** | 1,162 | **762** | 1,162 |

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 26. Commitments

Capital commitments

At the reporting date, the Group had capital commitments contracted for but not provided in the financial statements as follows:

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| Commitments in respect of the construction of plant and equipment | **60,989** | 15,524 |

Operating lease commitments – as lessee

At the reporting date, the Group was committed to making the following minimum payments under non-cancellable operating lease in respect of manufacturing and office premises:

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| Within 1 year | **5,796** | 10,625 |
| After 1 year but within 5 years | **5,499** | 20,800 |
| | **11,295** | 31,425 |

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 at the prevailing market rate.

## 27. Significant related party transactions

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

| | Group | |
|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 |
| Transactions with parties in which a director has substantial interest:- | | |
| - Operating lease expenses | **10,400** | 8,000 |

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 28. Segment information

The Group has four reporting segments, as described below, which are the Group's strategic business units based on their products.

The Group's reportable operating segments are as follows:-

(a) Corn refining – includes the manufacture and sale of corn sweeteners, corn starch, corn oil and related products.

(b) Animal feeds – includes the manufacture of feed for farm animals.

(c) Other products – includes manufacture and sale of amino acids and provision of engineering services and construction of industrial machinery and equipment.

(d) Corporate – includes administrative offices in Beijing and Singapore. Beijing branch office has ceased operations from August 2010 and on 11 October 2011, the relevant authorities has confirmed the closure of this Branch.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

| | Corn refining | Animal feeds | Others | Corporate | Eliminations | Notes | Group |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | | RMB'000 |
| **2011** | | | | | | | |
| **Revenue:** | | | | | | | |
| External customers | 3,478,946 | 369,638 | 56,923 | - | - | | 3,905,507 |
| Inter-segment sales | 78,845 | - | 7,212 | - | (86,057) | A | - |
| Total Revenue | 3,557,791 | 369,638 | 64,135 | - | (86,057) | | 3,905,507 |
| **Results:** | | | | | | | |
| Segment profit/(loss) before taxation | 111,698 | 9,736 | (7,948) | (10,437) | (41,548) | B | 61,501 |
| Income tax expense | 10,513 | 536 | - | - | - | | 11,049 |
| Interest income from bank | (368) | (20) | (9) | - | - | | (397) |
| Interest expense on bank loans | 39,969 | 18 | 1,373 | 3 | - | | 41,363 |
| Depreciation | 94,793 | 1,138 | 2,918 | (504) | (1,202) | C | 97,143 |
| Impairment of intangible asset | - | - | 7,200 | - | - | | 7,200 |
| Impairment of plant and equipment | 5,000 | - | - | - | - | | 5,000 |
| Amortisation of land use right | 588 | - | - | - | - | | 588 |
| Other non-cash expenses | (1,648) | - | 11 | - | - | D | (1,637) |
| **Assets:** | | | | | | | |
| Segment asset | 1,749,171 | 32,087 | 60,752 | 5,678 | (14,996) | E | 1,832,692 |
| Additions to non-current assets | 291,555 | 112 | 1,222 | 225 | - | F | 293,114 |
| **Liabilities:** | | | | | | | |
| Segment liabilities | 1,242,533 | 19,515 | 15,347 | 762 | 589 | G | 1,278,746 |

Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 28. Segment information (Cont'd)

| | Corn refining RMB'000 | Animal feeds RMB'000 | Others RMB'000 | Corporate RMB'000 | Eliminations RMB'000 | Notes | Group RMB'000 |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| **Revenue:** | | | | | | | |
| External customers | 2,774,575 | 254,762 | 19,960 | - | - | | 3,049,297 |
| Inter-segment sales | 59,392 | - | 6,898 | - | (66,290) | A | - |
| Total Revenue | 2,833,967 | 254,762 | 26,858 | - | (66,290) | | 3,049,297 |
| **Results:** | | | | | | | |
| Segment profit/(loss) before taxation | 57,457 | 3,613 | (4,160) | (17,287) | (33,377) | B | 6,246 |
| Income tax expense | 250 | - | - | - | - | | 250 |
| Interest income from bank | (732) | (11) | (5) | (3) | - | | (751) |
| Interest expense on bank loans | 33,307 | 14 | 924 | 6 | - | | 34,251 |
| Depreciation | 85,485 | 1,121 | 2,877 | 409 | (1,112) | C | 88,780 |
| Amortisation of land use right | 565 | - | - | - | - | | 565 |
| Other non-cash expenses | (2,115) | - | 380 | - | - | D | (1,735) |
| **Assets:** | | | | | | | |
| Segment asset | 1,503,944 | 27,331 | 57,523 | 1,802 | (16,315) | E | 1,574,285 |
| Additions to non-current assets | 136,944 | 466 | 1,741 | 9 | - | F | 139,160 |
| **Liabilities:** | | | | | | | |
| Segment liabilities | 1,041,784 | 11,818 | 15,340 | 1,260 | 589 | G | 1,070,791 |

Notes

Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements:-

A Inter-segment revenue are eliminated on consolidation.

B The following items are added to/(deducted from) segment profit to arrive at "profit before taxation" presented in consolidated financial statements:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Profit/(Loss) from inter-segment sales | **(582)** | 123 |
| Finance costs net of interest income | **(40,966)** | (33,500) |
| Total | **(41,548)** | (33,377) |

Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 28. Segment information (Cont'd)

C Inter-segment elimination of depreciation expense on profit arising from inter-segment sales of property, plant and equipment.

D Other non-cash expenses comprise the following:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Amortisation of government grant | **(2,235)** | (2,235) |
| Write-down of inventories | **-** | 363 |
| Allowance for doubtful trade receivables | **598** | 137 |
| | **(1,637)** | (1,735) |

E The following items are deducted from segment assets to arrive at total assets reported in the consolidated balance sheet:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Inter-segment assets | **14,996** | 16,315 |

F Additions to non-current assets consist of additions to property, plant and equipment and land use rights.

G The following items are added to segment liabilities to arrive at total liabilities reported in the consolidated balance sheet:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Deferred tax liabilities | **589** | 589 |

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.

Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 28. Segment information (Cont'd)

### Geographical segments

| | Group | |
|---|---|---|
| | **2011 RMB'000** | **2010 RMB'000** |
| Segment revenue by location of customers | | |
| - PRC | **3,639,853** | 2,864,348 |
| - Overseas | **265,654** | 184,949 |
| | **3,905,507** | 3,049,297 |
| Capital expenditures by geographical location of assets | | |
| - PRC | **292,889** | 139,160 |
| - Overseas | **225** | - |
| | **293,114** | 139,160 |
| Segment assets by geographical location of assets | | |
| - PRC | **1,822,317** | 1,565,771 |
| - Overseas | **10,375** | 8,514 |
| | **1,832,692** | 1,574,285 |

## 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 an ongoing basis and therefore the Group's exposure to bad debts is not considered to be significant.

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

At the reporting 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.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 29. Financial Instruments (Cont'd)

### *Liquidity risk*

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of credit facilities.

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 table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the balance sheet date based on contractual undiscounted repayment obligations.

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | One year or less | One to two years | Two to five years | Total | One year or less | One to two years | Two to five years | Total |
| | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 |
| **Group** | | | | | | | | |
| **Financial assets:-** | | | | | | | | |
| Trade and other receivables | **335,183** | **-** | **-** | **335,183** | 275,254 | - | - | 275,254 |
| Cash and cash equivalents | **103,141** | **-** | **-** | **103,141** | 71,046 | - | - | 71,046 |
| Total undiscounted financial assets | **438,324** | **-** | **-** | **438,324** | 346,300 | - | - | 346,300 |
| **Financial liabilities:-** | | | | | | | | |
| Interest-bearing loans and borrowings | **229,997** | **406,656** | **-** | **636,653** | 229,276 | 442,739 | - | 672,015 |
| Trade and other payables | **488,433** | **-** | **-** | **488,433** | 422,401 | 46 | - | 422,447 |
| Amounts owing to a related party | **35,917** | **2,520** | **2,520** | **40,957** | 3,616 | 2,520 | 5,041 | 11,177 |
| Finance lease liabilities | **1,059** | **-** | **-** | **1,059** | 1,707 | 820 | - | 2,527 |
| Total undiscounted financial liabilities | **755,406** | **409,176** | **2,520** | **1,167,102** | 657,000 | 446,125 | 5,041 | 1,108,166 |
| Total net undiscounted financial liabilities | **(317,082)** | **(409,176)** | **(2,520)** | **(728,778)** | (310,700) | (446,125) | (5,041) | (761,866) |

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.

Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 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 contractual maturity, of the Group's financial liabilities that are exposed to interest rate risk:-

| | Due within 1 year | After 1 year – 2 years | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **2011** | | | |
| ***Fixed rate*** | | | |
| Interest-bearing loans and borrowings | **360,000** | **216,000** | **576,000** |
| **2010** | | | |
| ***Fixed rate*** | | | |
| Interest-bearing loans and borrowings | 399,800 | 217,591 | 617,391 |

The fixed rate interest-bearing loans and borrowings bear interest at rates ranging from 5.31% to 8.53% (2010: 2.40% to 5.84%) per annum. Interests are at fixed rates until the maturity of the instrument.

The other financial instruments of the Group, except for cash at bank which bears market rate of interest, are not subjected to interest rate risk.

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. As the Group does not have any floating rate loans and borrowings, they are not exposed to significant interest rate risk.

### *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.

Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 29. Financial Instruments (Cont'd)

### *Foreign currency risk*

The Group incurs foreign currency risk on its USD denominated trade receivables. The Group does not have significant exposure to USD 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 Singapore dollars (SGD).

*Sensitivity analysis*

At the reporting date, if the USD were to weaken 10% against the RMB, with all variables held constant, the Group's pre-tax profit for the year would have been RMB 0.6 million lower (2010: RMB 0.8 million lower), mainly as a result of foreign exchange gains on translation of USD currency denominated trade receivables. A 10% strengthening against the RMB would have equal but opposite effect.

At the reporting date, the Group is subject to insignificant risk on SGD denominated balances. Accordingly, no sensitivity analysis disclosure is required.

### *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 non-controlling interests, as shown in the consolidated balance sheet, plus net debts.

The Group's strategy on capital management remained unchanged from the previous year, which was to maintain a gearing ratio of less than one. The gearing ratios at reporting date were as follows:-

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Total borrowings | **576,954** | 619,687 |
| Less: cash and cash equivalents | **(103,141)** | (71,046) |
| Net debt | **473,813** | 548,641 |
| Total equity | **553,946** | 503,494 |
| Total capital | **1,027,759** | 1,052,135 |
| Gearing ratio | **0.46** | 0.52 |

The Group and the Company are not subject to externally imposed capital requirements for the years ended 31 December 2011 and 2010.

Notes to the
# Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

## 29. Financial Instruments (Cont'd)

### 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:-

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Carrying amounts | Fair values | Carrying amounts | Fair values |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade and other receivables | **335,183** | **335,183** | 275,254 | 275,254 |
| Cash and cash equivalents | **103,141** | **103,141** | 71,046 | 71,046 |
| Interest-bearing liabilities | **576,954** | **576,954** | 619,687 | 619,687 |
| Trade and other payables | **488,433** | **488,433** | 422,447 | 422,447 |
| Amounts owing to a related party | **40,957** | **40,506** | 11,177 | 9,956 |

*Basis for determining fair value*

The carrying amount of trade and other receivables, cash and cash equivalents, floating rate interest-bearing loans and borrowing and trade and other payables approximates their fair values due to the short period to maturity. The fair value of the Group's lease obligations and fixed rate interest-bearing loans and borrowings approximates their carrying amount.

The fair value of amount owing to a related party as at the reporting date was estimated via discounting the expected cash flows using a discount rate which approximates the market rate of interest. The fair value is approximately RMB 7,110,000 (2010: RMB 8,860,000). The difference between the carrying amount and the fair value is a gain of approximately RMB 451,000 (2010: RMB 1,221,000) which has not been recognised in the profit or loss as such policy has been consistently applied.

*Interest rates used for determining fair value*

The interest rate used to discount the expected cash flows is as follows:-

| | 2011 | 2010 |
|---|---|---|
| Amounts owing to a related party | **6.48%** | 5.37% |

## 30. Proposed final dividend

The directors do not recommend a dividend to be paid for the financial year ended 31 December 2011.

# Statistics of Shareholdings

AS AT 14 MARCH 2012

| | | |
|---|---|---|
| Issued and paid-up capital | : | $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 | % of shareholders | No. of shares | % of shareholdings |
|---|---|---|---|---|
| 1 - 999 | 3 | 0.11 | 1,000 | 0.00 |
| 1,000 - 10,000 | 1,239 | 46.20 | 9,184,000 | 2.32 |
| 10,001 - 1,000,000 | 1,414 | 52.72 | 85,623,000 | 21.62 |
| 1,000,001 and above | 26 | 0.97 | 301,192,000 | 76.06 |
| TOTAL | 2,682 | 100.00 | 396,000,000 | 100.00 |

### Substantial shareholders

(As recorded in the Register of Substantial Shareholders as at 14 March 2012)

| | Direct interest | | Deemed interest | |
|---|---|---|---|---|
| Name of shareholders | No. of shares | % | No. of Shares | % |
| Niu Ji Xing (1), (2) | 3,900,000 | 0.98 | 157,950,000 | 39.89 |
| Faith Corporate International Limited (2) | 157,950,000 | 39.89 | - | - |
| Toh Bee Yong | 32,760,000 | 8.27 | - | - |

**Notes:**

(1) Niu Ji Xing is deemed to have an interest in the 157,950,000 shares held by Faith Corporate International Limited by virtue of Section 7 of the Companies Act, Chapter 50.

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

Statistics of
# Shareholdings
AS AT 14 MARCH 2012

### Twenty largest shareholders

| | Name of shareholder | No. of shares | % of shareholdings |
|---|---|---|---|
| 1 | CITIBANK NOMINEES SINGAPORE PTE LTD | 194,650,000 | 49.15 |
| 2 | TOH BEE YONG | 32,760,000 | 8.27 |
| 3 | DBS VICKERS SECURITIES (S) PTE LTD | 11,147,000 | 2.81 |
| 4 | CHUA ENG ENG | 10,120,002 | 2.56 |
| 5 | OCBC SECURITIES PRIVATE LTD | 6,995,000 | 1.77 |
| 6 | TEO RAYMOND | 4,085,000 | 1.03 |
| 7 | TAN WEN CHIEN FIONA | 3,982,000 | 1.01 |
| 8 | LIONG KIAM TECK | 3,536,998 | 0.89 |
| 9 | MAYBAN NOMINEES (S) PTE LTD | 3,050,000 | 0.77 |
| 10 | DBS NOMINEES PTE LTD | 2,814,000 | 0.71 |
| 11 | UOB KAY HIAN PTE LTD | 2,783,000 | 0.70 |
| 12 | CHEN SHUOWANG | 2,725,000 | 0.69 |
| 13 | TEO POH SUAN | 2,717,000 | 0.69 |
| 14 | LIM TCHEN NAN | 2,512,000 | 0.63 |
| 15 | BANK OF CHINA NOMINEES PTE LTD | 2,198,000 | 0.56 |
| 16 | UNITED OVERSEAS BANK NOMINEES PTE LTD | 2,015,000 | 0.51 |
| 17 | SIM SOO THONG | 1,553,000 | 0.39 |
| 18 | PHILLIP SECURITIES PTE LTD | 1,542,000 | 0.39 |
| 19 | KO AH HUEY | 1,467,000 | 0.37 |
| 20 | TAN YONG CHIANG OR TAN HUI LIANG | 1,403,000 | 0.35 |
| | **TOTAL** | **294,055,000** | **74.25** |

### Free float

Based on the information provided to the Company as at 14 March 2012, approximately 44.4% 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

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

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at Falcon Room, Level 3, Laguna National Golf & Country Club, 11, Laguna Golf Green, Singapore 488047, on Thursday, 26 April 2012 at 3.00 p.m. for the following purposes:-

**AS ORDINARY BUSINESS**

**Resolution 1**

1. To receive and adopt the audited accounts for the financial year ended 31 December 2011, together with the Reports of the Directors and the Independent Auditors and the Statement by the Directors.

**Resolution 2**

2. To re-elect Mr Wang De You, who is retiring by rotation pursuant to Article 107 of the Company's Articles of Association and who, being eligible, is offering himself for re-election as a Director.

**Resolution 3**

3. To re-elect Mr Ong Wei Jin, who is retiring by rotation pursuant to Article 107 of the Company's Articles of Association and who, being eligible, is offering himself for re-election as a Director.

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

**Resolution 4**

4. To approve the payment of Directors' fees of SGD130,000 and RMB150,000 for the financial year ending 31 December 2012, to be paid quarterly in arrears (FY2011: SGD130,000 and RMB150,000).

**Resolution 5**

5. To re-appoint Mazars LLP as the Company's Independent Auditors and to authorise the Directors to fix their remuneration.

6. To transact any other ordinary business that may be properly transacted at an annual general meeting.

**AS SPECIAL BUSINESS**

**Resolution 6**

7. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution, with or without modifications:-

   "Authority to allot and issue shares

   That pursuant to Section 161 of the Companies Act, Chapter 50, the Articles of Association 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

# Notice Of Annual General Meeting

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

(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% of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below) ("**Issued Shares**"), 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 total number of Issued Shares;

(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 sub-paragraph (1) above, the percentage of Issued Shares shall be based on the total number of issued shares (excluding treasury shares) in the 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;

(ii) new shares arising from the exercise of share options or vesting of share awards which are outstanding or subsisting at the time this authority is given, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and

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

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

(4) (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 to be held, whichever is the earlier."
[see Explanatory Note (i)]

**Resolution 7**
8. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution, with or without modifications:-

"Share purchase mandate

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**"), 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, which scheme shall satisfy all the conditions prescribed by the Companies Act,

Notice Of
# Annual General Meeting

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

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% of the issued ordinary Shares of the Company as at the date of the passing of this Resolution (excluding any Shares which are held as treasury shares as at the date); 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% of the Average Closing Price; and

(ii) in the case of an Off-Market Purchase : 120% 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)]

Notice Of
# Annual General Meeting

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

**Resolution 8**

9. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution, with or without modifications:-

"Authority to allot and issue shares pursuant to the Luzhou Performance Share Scheme

That pursuant to Section 161 of the Companies Act, Chapter 50, the Directors of the Company be and are hereby authorised and empowered to grant awards in accordance with the Luzhou Performance Share Scheme (the "Scheme") and to allot and issue from time to time such number of 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 shares to be allotted and issued pursuant to the Scheme, when added to the number of shares issued and issuable in respect of all awards granted under the Scheme and all other shares issued and issuable under any other share-based incentive schemes of the Company for the time being in force, shall not exceed 15% of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time, and such authority shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting or the expiration of the period within which the next annual general meeting is required by law to be held, whichever is earlier."
[see Explanatory Note (iii)]

BY ORDER OF THE BOARD

**Vincent Lim Bock Hui**
Company Secretary
Singapore
10 April 2012

Notice Of
# Annual General Meeting

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

**Explanatory Notes:-**

(i) Ordinary Resolution 6 is to empower the Directors to issue shares in the capital of the Company and to make or grant instruments (such as warrants) convertible into shares, and to issue shares in pursuance of such instruments, up to a number not exceeding 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, with a sub-limit of 20% for issues other than on a pro-rata basis to shareholders. For the purpose of determining the aggregate number of shares that may be issued, the percentage of issued shares shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time Ordinary Resolution 6 is passed, after adjusting for (a) new shares arising from the conversion or exercise of any convertible securities, (b) new shares arising from the exercise of share options or vesting of share awards which are outstanding or subsisting at the time Ordinary Resolution 6 is passed, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST, and (c) any subsequent bonus issue, consolidation or sub-division of shares. Such authority will, unless previously revoked or varied at a general meeting, expire at the next annual general meeting of the Company.

(ii) Ordinary Resolution 7 will renew the 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, as an Appendix.

(iii) Ordinary Resolution 8 will empower the Directors to grant awards under the Luzhou Performance Share Scheme and to allot and issue shares pursuant to the vesting of the awards under the Scheme, provided that the aggregate number of shares to delivered under the Scheme, when added to the number of shares issued and issuable in respect of all awards granted under the Scheme and all other shares issued and issuable under any other share-based incentive schemes of the Company for the time being in force, shall not exceed 15% of the total number of issued shares (excluding treasury shares) from time to time.

**Notes:-**

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

(ii) 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.

(iii) 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.

(iv) The instrument appointing a proxy must be deposited at the registered office of the Company at 18 Cross Street #07-11 China Square Central, Singapore 048423, not less than 48 hours before the time appointed for holding the above 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 their information only.
2. This Proxy Form is therefore not valid for use by such CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

## ANNUAL GENERAL MEETING

# Proxy Form

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

I/We, ______________________________________________ (Name)

of ______________________________________________ (Address)

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

| Name | Address | NRIC/ Passport No. | Proportion of Shareholdings (%) |
|---|---|---|---|
| | | | |

and/or (delete as appropriate)

| Name | Address | NRIC/ Passport No. | Proportion of Shareholdings (%) |
|---|---|---|---|
| | | | |

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf, at the Annual General Meeting ("**AGM**") of the Company to be held at Falcon Room, Level 3, Laguna National Golf & Country Club, 11, Laguna Golf Green, Singapore 488047 on Thursday, 26 April 2012 at 3.00 pm, 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 and at any adjournment thereof.

| No. | Resolutions relating to: | For | Against |
|---|---|---|---|
| 1. | Audited accounts for financial year ended 31 December 2011 and Reports of the Directors and the Independent Auditors and Statement by the Directors | | |
| 2. | Re-election of Mr Wang De You as a Director | | |
| 3. | Re-election of Mr Ong Wei Jin as a Director | | |
| 4. | Approval of Directors' fees of SGD130,000 and RMB150,000 | | |
| 5. | Re-appointment of Mazars LLP as Independent Auditors | | |
| 6. | Authority to allot and issue shares | | |
| 7. | Share purchase mandate | | |
| 8. | Authority to allot and issue shares pursuant to Luzhou Performance Share Scheme | | |

(Please indicate with a cross [X] in the space provided whether you wish your vote to be cast for or against the resolution as set out in the Notice of AGM.)

Dated this ____________ day of ____________ 2012

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

______________________________________
Signature(s) of Member(s) or Common Seal

**IMPORTANT: PLEASE READ NOTES OVERLEAF**

ANNUAL GENERAL MEETING

# Proxy Form

**LUZHOU BIO-CHEM TECHNOLOGY LIMITED**

**(Incorporated in the Republic of Singapore)**

**(Company Registration No. 200412523N)**

**Notes:-**

1. A member of the Company entitled to attend and vote at the AGM is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

2. Where a member appoints two proxies, 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. 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, Chapter 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 shares 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 shall be deemed to relate to all the shares held by you.

4. This proxy form must be deposited at the registered office of the Company at 18 Cross Street #07-11 China Square Central Singapore 048423 not less than 48 hours before the time set for the AGM.

5. 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 an officer or attorney duly authorised.

6. 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 lodged with this proxy form, failing which this proxy form shall be treated as invalid.

7. The Company shall be entitled to reject a proxy form which is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in 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 AGM, as certified by The Central Depository (Pte) Limited to the Company.

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

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