



LUZHOU BIO-CHEM TECHNOLOGY LIMITED

annual report **2005**



a single
kernel



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Corn: Single source from Nature, many uses in life

A single kernel of corn has wide ranging uses and applications. Each corn kernel can be refined and separated into various components which can be processed into higher value products. At Luzhou Bio-chem Technology Limited, we focus on the production of corn sweeteners.

CORPORATE PROFILE

Established in 1988, Luzhou Bio-chem Technology Limited (“Luzhou” or “the Group”) is a leading corn refiner and one of the largest producer of corn sweeteners in the PRC. Besides a diverse range of corn sweeteners, we also sell corn starch, an intermediate product in the production of its sweeteners, as well as by-products of its production processes.

We currently operate four production facilities in the PRC, with a total production capacity of 650,000 tonnes per annum. Our facilities are strategically located in Fushun, Yishui, Xingping and Xiping in the Liaoning, Shandong, Shaanxi and Henan provinces respectively, which straddle key corn and agricultural producing provinces to cover most parts of the PRC market and to be near sources of raw materials.



Our strength lies in our strong research and development capabilities. As a testimony to our R&D capabilities and advanced production processes, some of our products were awarded the “New Product New Technology” and “Science and Technology Result Identification” certifications. The China Fermentation Industry Association (“CFIA”) also established a CFIA Starch Sugar Quality Test Centre at our R&D centre and authorised us to conduct quality checks and issue quality reports or certificates recognised in the PRC on third parties sweeteners or related products.



Our products are used by our domestic and overseas customers as additives or ingredients in the manufacture of their products. We serve a diverse customer base in industries such as food, beverage, fermentation, medical, pharmaceutical and textile. Some of our customers include Tsingtao Brewery Co., Ltd (青岛啤酒股份有限公司), Beijing Wangwang Food Co., Ltd (北京旺旺食品有限公司), Dujiangyan Plant Oil Factory (都江堰植物油厂) and China Resources Breweries Liaoning Co., Ltd (华润雪花啤酒(辽宁)有限公司).



Luzhou was listed on the Main Board of The Singapore Exchange Securities Trading Limited on 24 February 2006.



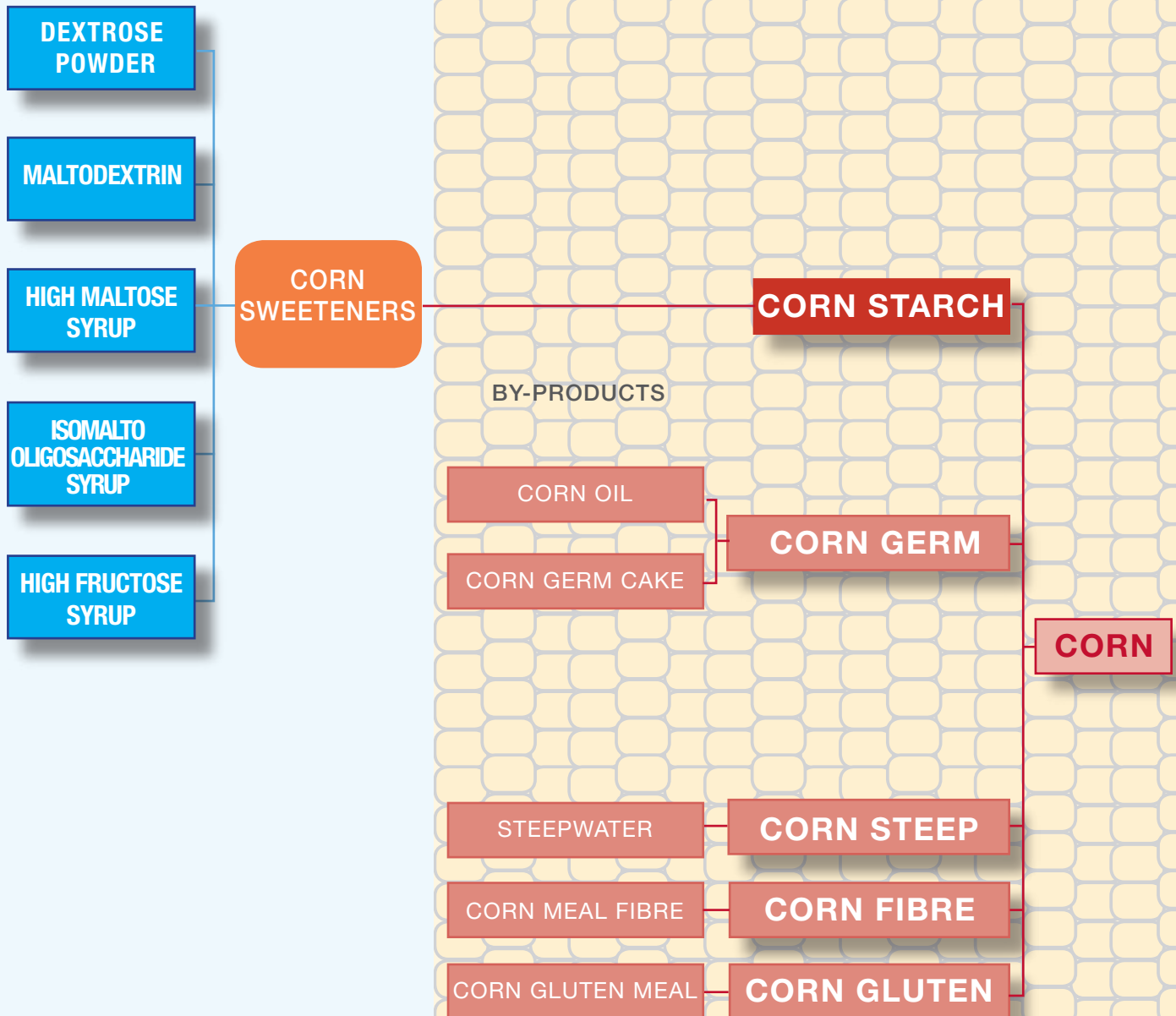
unlimited potential, multiple wonders

Our corn sweeteners are versatile additives which adds value and enhances products. Corn sweeteners are widely used in the food and beverage industries for candies, frozen food, processed food, beer and health products. What is less known is - they are also key ingredients in other industries such as leather processing and the manufacture of building materials.

PRODUCTS & APPLICATIONS

Corn refined bioproducts

Corn refined intermediate products



Applications of our products:



Food



Confectionery



Beverages



Medicine



Fermentation

PRODUCTION FACILITIES



Fushun, Liaoning Production Facility



Xiping, Henan Production Facility



Xingping, Shaanxi Production Facility



Yishui, Shandong Production Facility

* Commenced production in January 2006

MANAGING DIRECTOR'S MESSAGE

Dear Shareholders,

On behalf of the Board of Directors, I am delighted to present Luzhou Bio-chem Technology Limited and its subsidiaries ("Luzhou" or the "Group") maiden annual report for the financial period ended 31 December 2005 ("FY2005").

FY2005 has been an exciting and rewarding year for us at Luzhou. We were successfully listed on the Main Board of The Singapore Exchange Securities Trading Limited on 24 February 2006.



Our successful listing in February 2006 signifies our coming of age and serves as an important launch pad for our Group's growth in the years ahead as it has solidified our position to forge ahead with our growth plans and strategies to seize opportunities in the corn sweeteners market in China.

The Year in Review

We are delighted to report that we have achieved a sterling performance in FY2005. Group revenue rose 16.7% past the billion-renminbi mark to hit a record of RMB 1.07 billion, while net profit after taxation surged 63.2% to RMB 72.6 million. Our strong bottomline performance was driven by economies of scale achieved as a result of improved utilisation of our production capacities.

Earnings per share also rose 63.2% from RMB 17.1 cents to RMB 27.9 cents, and net asset value more than doubled from RMB 15.6 cents in FY2004 to RMB 43.8 cents in FY2005.

Our outstanding financial performance is a testimony to our efforts in strengthening our business. We invested substantially in our business infrastructure to strengthen our fundamentals and create a strong platform for future growth.

Over the past few years, we embarked on an aggressive production capacity expansion program to meet the fast-growing demand for corn sweeteners. With a production capacity of 510,000 tonnes of corn sweeteners as at end FY2005, we believe we are one of the largest producer of corn sweeteners in the PRC, with a domestic market share of approximately 25% to 30% and a market leader in the export of corn sweeteners in the PRC with approximately 40% market share.

Leveraging on our strong R&D capabilities, we focused our efforts on developing higher value products, including several award-winning products which have been widely accepted by our customers. For example, our "Nutritious Maltose Syrup for Beer" which is generally used as an additive in beer production is now widely supplied to several key beer breweries in the PRC, including Tsingtao Brewery, China Resources Brewery (Snowflakes) and Yanjing Brewery. During the year under review, we successfully launched a range of higher value corn sweeteners such as sorbitol and maltitol, which are widely used as sugar replacements in the food and beverage, health products and cosmetics industries. We expect the growth in applications for our new products to drive their demand in the years ahead.

MANAGING DIRECTOR'S MESSAGE

Strengthening Our Foundation

At Luzhou, we have pursued a strategy to strengthen our production capabilities to boost our growth, improve our margins and capture a larger market share of the potential strong demand for corn sweeteners in the PRC.

In January 2006, we commenced production at our Xiping production facility in Henan Province, to produce corn sweeteners. The new plant has added another 140,000 tonnes to our production capacity, bringing the Group's total production capacity to 650,000 tonnes. This new plant will enable Luzhou to better serve our customers from the central, southern and eastern parts of the PRC.

We are also in the process of expanding our production capacity at our Fushun, Liaoning and Yishui, Shandong production facilities. The new production facilities which will manufacture other higher margin products such as dextrose powder, high maltose syrup and sorbitol, are expected to be operational in the fourth quarter of FY2006.



Outlook

Going forward, given the thriving PRC economy, China's increasing consumer purchasing power will drive the demand for consumer products, which will in turn lead to an increasing demand for additives. The growth in various processing industries will lead to the increased demand for cost-effective corn sweeteners, which can be widely applied in various industries such as fermentation, food and beverage and pharmaceutical industries.

To leverage on these growth trends, we have mapped out clear growth strategies and expansion plans to capture these growth opportunities. Besides expanding our production capacity, we also plan to leverage on our R&D capabilities to create new higher value products, broaden our product range and expand the application of our products. We will also enhance our production capabilities and continue to expand our sales and distribution network in the PRC and overseas markets.

A Word of Thanks

To thank shareholders for their confidence and support, the Board of Directors is pleased to propose a tax-exempt final dividend of RMB 4.1 cents per ordinary share. This proposed maiden dividend payout is equivalent to approximately RMB 14.8 million, or 20.3% of our net earnings for FY2005.

On behalf of the Board of Directors, I would like to extend my heartfelt gratitude to all our valued customers, suppliers and business associates for the trust and support given to Luzhou since our listing and extend our sincere thanks to all our shareholders for your confidence in our Company.

To our management team and staff, I wish to express my appreciation for their dedicated efforts, commitment and contributions to the Company. I hope to work with all of you to work towards a brighter future ahead.

A handwritten signature in black ink, appearing to be the name of the Managing Director.

Managing Director

董事长致词

尊敬的股东们，你们好：

我谨代表董事局，荣幸的向各位呈上鲁洲生物科技有限公司（“鲁洲”）2005年度财务报告。

回顾过去的一年，我们取得了丰硕的成果。鲁洲2006年2月24日成功上市，这是公司发展史上的一个重要里程碑，不但对公司过去取得成绩的肯定，也是对公司未来发展潜能的认可。我们将会尽最大努力把鲁洲经营的更好，实施公司的发展规划，充分把握中国玉米淀粉糖庞大市场所带来的商机，为股东创造更多的利益。

回顾业绩

2005年我们取得了骄人的成绩，销售收入达到10.7亿元人民币，增长16.7%；净利润增长63.2%，达到7,260万元人民币。利润强劲增长，主要是因为我们产能利用率的提高，这是公司成立以来营业额表现最出色的一年。

公司每股盈利从人民币17.1分增长到人民币27.9分，增长63.2%；每股资产净值从2004年度的人民币15.6分上升到2005年度的人民币43.8分，增长值超过一倍。

上述业绩的取得是由于我们过去几年努力扩大业务规模的成果。我们在原有基础上，加大投资规模，取得了良好的投资效益，因而为公司未来的发展奠定了坚实的基础。

过去几年来，我们实施规模化经营，以满足日益增长的市场需求。截至2005年，我们的淀粉糖系列产品年产能达51万吨，占中国淀粉糖市场份额的25%至30%，目前是中国最大的玉米淀粉糖生产商之一。同时，也是淀粉糖出口市场的引领者之一，约占出口市场份额的40%。

过去几年来，我们开发了多项获奖产品，如“啤酒专用麦芽糖浆”，专门供应给中国主要的啤酒生产商，如青岛啤酒、华润啤酒和燕京啤酒。在过去的一年，我们凭着强大的研发能力，成功地推出一系列高价值的淀粉糖系列产品，包括山梨醇和麦芽糖醇。这些新产品作为蔗糖的替代品，广泛地应用在食品、饮料、药剂生产和美容化妆品制造行业。我们相信，淀粉糖的广泛用途及市场对我们产品需求的增加，将带动我们未来经济效益的增长。

壮大根基

近几年来，中国淀粉糖市场出现强劲的增长趋势，为进一步扩大市场份额，我们不断提高生产能力，加强内部控制，以提高利润率。

2006年1月，我们的河南省西平工厂开始投产，淀粉糖系列产品年产量预计达14万吨，公司年产量增加到65万吨。西平工厂将使我们能更好的为华中、华南和华东的客户提供更全面的服

此外，我们正在增加辽宁生物和山东生物的生产设施，以进一步提高产能，生产较高利润的淀粉糖系列产品如葡萄糖粉、高麦芽糖浆和山梨醇等。预计扩展的生产设施将会在2006年第四季度发挥效益。

展望未来

放眼未来，随着中国经济的持续高速增长，中国国内消费者的消费能力也日益提高，对食品的需求也相对增加，这必将带动淀粉糖需求的提高。另外，由于各加工业的高速增长，而使用玉米淀粉糖比其他糖制品更具效益，而且玉米淀粉糖用途广泛，可用于发酵、食品、饮料和药剂等行业，因此，玉米淀粉糖市场的增长潜力将是无可限量的。

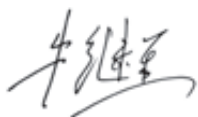
我们已明确的制定出未来的增长策略和发展规划，以充分把握日益强劲的市场需求所带来的商机。除扩大产能外，我们计划凭借公司的研发能力创造出更高价值的产品，扩大产品系列和功能用途。我们也将扩大营销网络，继续拓展国内外市场。

致谢

在此我谨代表董事局，对广大股东的真诚信赖致以诚挚的感谢。为了回报股东，公司宣布派发每股人民币4.1分的股息。我们在上市后所派发的首次股息共计1,480万元人民币，占公司2005年净利润的20.3%。

最后，我谨代表公司董事局，衷心感谢所有股东、客户和商业伙伴在过去一年里给予我们的信任和支持。

同时，我也想借此机会，对我们的管理团队以及公司全体员工的忠诚付出、努力贡献致以诚挚的感谢，谢谢你们的辛勤工作和卓越贡献。我希望在未来的发展中，继续和大家携手共创美好的未来！



牛继星
董事长



OPERATIONS REVIEW

The Group reported a record revenue of RMB 1,071.1 million in FY2005, up 16.7% from RMB 917.5 million in FY2004, due mainly to increased sales of corn sweetener and corn starch products to both existing and new customers.

In line with our strategy to move towards higher value add corn sweetener products, sales contribution from corn sweetener products increased from 60.3% of FY2004 revenue to 65.1% of FY2005 revenue. Sales contribution from the corn starch segment decreased marginally from 15.9% of Group revenue in FY2004 to 15.6% in FY2005. At the same time, sales contribution from by-products fell from 23.8% in FY2004 to 19.3% in FY2005.

Our marketing efforts to promote the application of our new products has shown results - our customer base broadened from 3,780 in FY2004 to 5,632 in FY2005.

Gross profit jumped 67.4% to RMB 196.6 million in FY2005, compared to RMB 117.4 million in FY2004. Gross profit margin improved from 12.8% in FY2004 to 18.4% in FY2005 due to improved utilization in the production facilities, allowing the Group to benefit from greater economies of scale. The change in product mix with a higher contribution of corn sweetener as well as the decrease in corn prices during the year under review also contributed to the improvement in the Group's gross profit margin.

As a result, net profit after taxation climbed 63.2% to RMB 72.6 million in FY2005, compared to RMB 44.5 million in FY2004.

In line with the increase in net profit, earnings per share rose 63.2% to RMB 27.9 cents in FY2005 from RMB 17.1 cents in the previous financial year, based on a share capital base of 260,000,000 shares.

Net asset value per share more than doubled from RMB 15.6 cents as at FY2004 to RMB 43.8 cents in FY2005.

Strengthening Our Market Leadership Position

Over the past few years, we embarked on an aggressive production capacity expansion program. With a production capacity of 510,000 tonnes of corn sweeteners as at end FY2005, we believe we are currently one of the largest producer of corn sweeteners in the PRC, with a domestic market share of approximately 25% to 30% and a market leader in the export of corn sweeteners in the PRC, with approximately 40% market share.

During the year under review, the PRC market remains the key market for the Group. Revenue from the PRC market rose 10.3% from RMB 848.0 million in FY2004 to RMB 934.9 million in FY2005, accounting for 87.3% of total revenue contribution for FY2005.

We also made good progress in growing overseas markets. Revenue from our overseas markets jumped 95.9% from RMB 69.5 million in FY2004 to RMB 136.2 million in FY2005. Revenue from overseas markets contributed 12.7% of the Group's revenue in FY2005. The revenue was derived from various overseas markets such as South Korea, Japan, Malaysia, the Philippines, Australia, South Africa and the USA.

On Track With Production Capacity Expansion Drive



Since the commencement of the Group's production capacity expansion drive in 2002, our annual production capacity for corn sweeteners has grown from 165,000 tonnes in FY2002 to 510,000 tonnes in FY2005. During the year under review, we leveraged on the increased resources and achieved economies of scale with the increased production capacity.

To meet the demand of our customers, we plan to continue to expand our production capacity of higher value products.



In January 2006, our new plant located in Xiping, Henan Province commenced operations, adding another 140,000 tonnes to the Group's annual production capacity, bringing it to a total of 650,000 tonnes. We believe that the new plant will enable the Group to better serve and tap the potential demand for our products in the central, southern and eastern parts of the PRC.

We also have plans to use part of our IPO proceeds to enhance our corn sweetener production

OPERATIONS REVIEW

capabilities to produce higher value corn sweetener products such as sorbitol, dextrose powder and high maltose syrup. The new production facilities in Yishui, Shandong Province, and Fushun, Liaoning Province are under construction and are expected to commence production in the fourth quarter of 2006.

Commitment to R&D Capabilities

We place strong emphasis on research and development to broaden our product range and enhance product quality and production processes.

As testament to the Group's strategic role in the PRC corn sweetener industry, Luzhou has been identified as a Key Flagship Company (重点龙头企业) by various provincial governments. In 2004, the China Fermentation Industry Association (中国发酵工业协会) also set up a quality test centre at the Group – which authorises Luzhou to conduct sweetener quality checks for other companies and issue quality reports which are recognised within the PRC.

Over the years, we have developed several award-winning products which are now widely used by our customers. We introduced maltose syrup (啤酒专用麦芽糖浆) specially customised for beer production in 2002, and is now used by major PRC breweries.

During the year under review, our research and development efforts continued to drive our growth as we continued to launch new higher value products to the market. For FY2005, we introduced a range of corn sweeteners such as crystalline maltose used in food and medicine as well as sorbitol, maltitol, oligomaltitol and oligoisomaltitol which are widely used as sugar replacements in the food, beverage, pharmaceutical and chemicals industry.

We have since received encouraging response from our customers for these new products and expect these new products to contribute positively to our financials in the years ahead.

Enhancing Our Capabilities

Over the years, we have invested substantially in our business infrastructure to strengthen our fundamentals and are beginning to reap the benefits of economies of scale, enhanced efficiency, reduced costs and increased productivity.

We introduced ERP to integrate the key functions of our Group in July 2004. Since its implementation, we have been able to better monitor and manage the business operations and resources of our Group. We believe that the ERP software will continue to add value to our business operations and enhance our competitive edge in the years ahead.

Over the years, we have installed power generating capabilities in some of our production facilities. In July 2004, we installed a 6MW thermoelectricity generator in our Yishui production facility. This has since translated to savings in operating costs during the year under review. We plan to install similar full-fledged thermoelectricity generators in our Fushun and Xingping facilities progressively over the next two years. All our production facilities are equipped with water wells that accumulate ground water for our manufacturing use.

Prospects Ahead

To meet the expected growth in demand for our products, we increased our production capabilities to support expansion of our market share of corn sweeteners in the PRC. We are confident that our enhanced capabilities will enable us to ride on the growing trend for the use of corn sweeteners in the PRC.

In particular, we have enjoyed success with the growing demand for our high maltose syrup for beer production as breweries reduce their reliance on rice and wheat for their beer production. We are also poised to benefit from the relatively untapped market for our sweeteners as sugar-free replacements in the food, beverage, pharmaceutical and cosmetics industry.

Looking ahead, we are confident that our increased production capability will strengthen our market leadership position in the PRC, and enable us to ride on the growing trend for corn sweeteners.



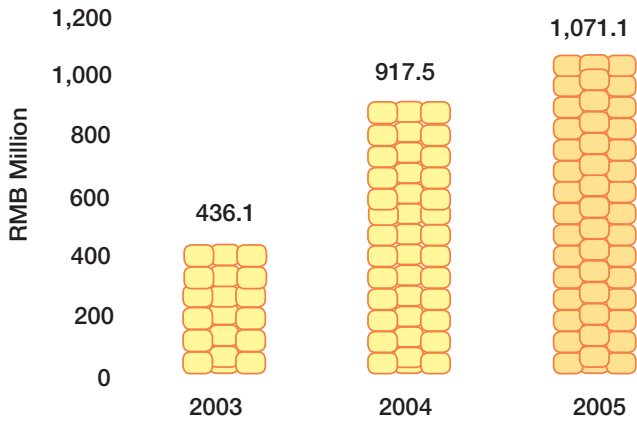
FINANCIAL HIGHLIGHTS

Income Statement for financial year/period ended 31 December

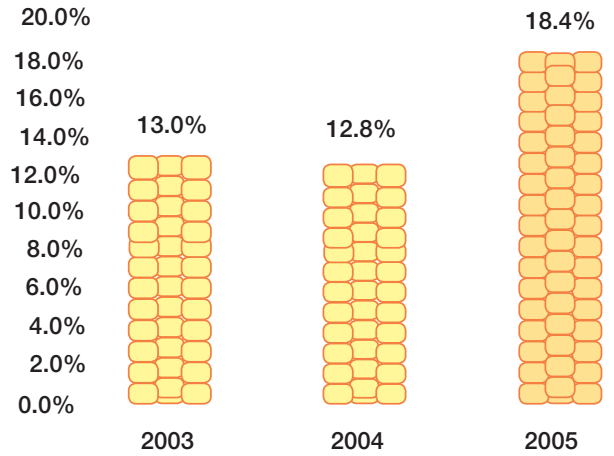
	<i>Proforma</i> 2003 RMB million	<i>Proforma</i> 2004 RMB million	<i>Audited</i> 2005 RMB million
Revenue	436.1	917.5	1,071.1
Gross Profit	56.6	117.4	196.6
Gross Profit Margin	13.0%	12.8%	18.4%
Net Profit Attributable to Shareholders	8.2	44.5	72.6
EBITA	21.6	70.4	106.4
Return on revenue	1.9%	4.9%	6.8%
Revenue by segments			
- Sweeteners	74.5%	60.3%	65.1%
- Corn starch	1.3%	15.9%	15.6%
- By-products	24.2%	23.8%	19.3%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Revenue by geographical			
- PRC	88.8%	92.4%	87.3%
- Other countries	11.2%	7.6%	12.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Balance Sheet as at 31 December			
Plant and equipment (including land use rights)		161.6	256.8
Net Current Assets		(70.6)	14.6
Total Assets		296.1	478.3
Shareholders' Funds		40.4	114.0
Total Liabilities		255.7	364.3
Cash and cash equivalents		34.6	94.3
PER SHARE *			
Earnings per share (RMB cents)*		17.1	27.9
Net tangible asset per ordinary share (RMB cents)*		15.6	43.8
Dividend per share (RMB cents)		-	4.1

* based on 260,000,000 ordinary shares in issue

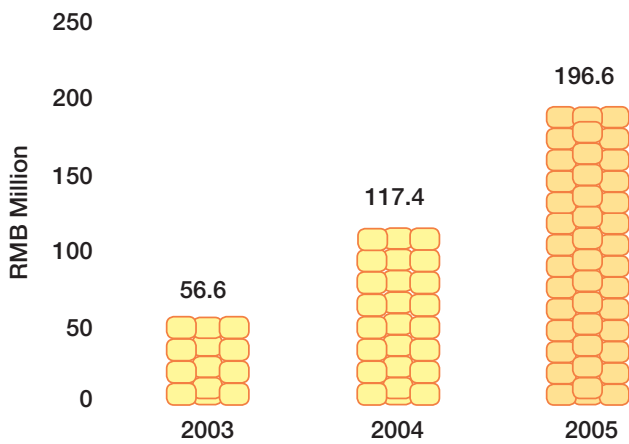
Revenue



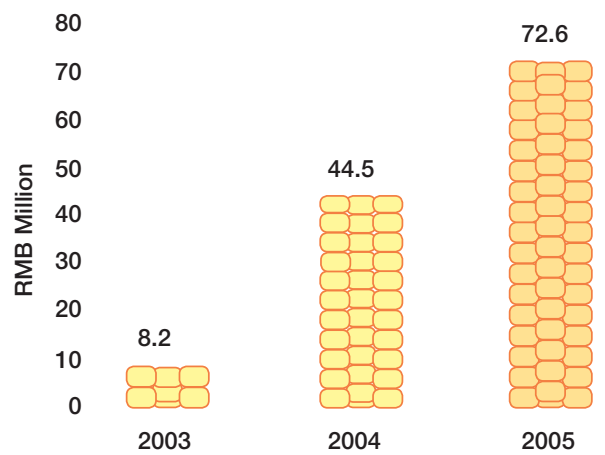
Gross Profit Margin



Gross Profit



Net Profit Attributable to Shareholders



BOARD OF DIRECTORS



Niu Ji Xing

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



Gao Zhong Fa

Gao Zhong Fa is our Executive Director and Group General Manager, and is responsible for the overall business operations and the day-to-day management of our Group. He has more than 15 years of experience in the food industry, particularly in the operations of food product factories. Prior to joining our Group, he had joined Shandong Luzhou in May 2002 as the general manager. Prior to joining Shandong Luzhou, he was a General Manager at Shandong Luzhou Food Product Pte. Ltd. from 2001 to 2002, the factory operations manager at Shandong Yishui Luzhou Food Product Pte. Ltd. from 1993 to 2000, the factory operations manager at Shandong Yishui Jixing Confectionery Factory from 1988 to 1993, and the operations manager at Shandong Shouguang Gaojia Food Product Pte. Ltd. from 1985 to 1988. Gao Zhong Fa obtained a certificate in Economic Management (经济管理专业) studies from the Shandong Economic Management Institution (山东经济管理干部学院) in July 1996. He is also a committee member of the Shandong Linyi Political Consultative Conference (山东省临沂市政治协商会议) and is recognised as a contributor to the National Food Product Advanced Management of Science and Technology (全国食品工业技术先进技术管理工作).

BOARD OF DIRECTORS



Wang De You

Wang De You is our Executive Director and Group Deputy General Manager (Production, Research and Development). He has more than 15 years of experience in the food processing and manufacturing industry. Prior to joining our Group, he had joined Shandong Luzhou as an assistant general manager in June 2002. Prior to that, he was a deputy general manager at Shandong Luzhou Food Product Factory from 1998 to 2002, a production manager at Shandong Yishui Luzhou Food Product Factory from 1993 to 1999, a production manager at Shandong Yishui Jixing Confectionery Factory from 1990 to 1993 and an assistant factory manager at Shandong Linqu Dairy Product Factory from 1987 to 1990. Wang De You obtained a certificate in Food Processing and Manufacturing (发酵工程专业) studies from Shandong University (山东大学) in July 1996. He is presently the Vice Chairman of the CFIA (starch confectionery branch), standing Director of the CFIA and the standing Director of the First Council Linyi Grain Association (临沂市粮食行业协会第一届理事会).



Kong Xiang Chao

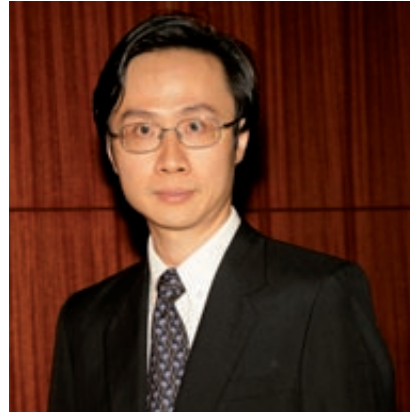
Kong Xiang Chao is our Non-Executive Director, and is presently a retiree. Prior to joining our Group, he was an accountant in Jiangsu Province Xuzhou City Commerce Bureau from 1964 to 1970, the Technical Director and subsequently the factory head of Jiangsu Province Xuzhou City Commercial Mechanical Factory from 1970 to 1991, the general manager of the Jiangsu Province Xuzhou City Blackcat Foodstuff Group from 1991 to 1998 and a researcher in Jiangsu Province Wantong Production Group from 1998, before he retired in 2004. Kong Xiang Chao has a professional mechanical production certificate (机械制造工艺与设备专业) from the Jiangsu Mechanical Studies College (江苏省机械职工大学), which he obtained in 1984. He received an engineering qualification (工程师) from the Xuzhou Engineering Series Intermediate Post Accreditation Committee (徐州市工程系列中级职称评审委员会) in 1988, and a professional senior economist certificate (高级经济师) from the Jiangsu Senior Economist Board Accreditation Committee (江苏省经济专业高级职称评审委员会) in 1994. Kong Xiang Chao was appointed Deputy Secretary-General of the Candy Committee of the China Food Industry Association (中国食品工业协会) in 2000.

BOARD OF DIRECTORS



Teoh Teik Kee

Teoh Teik Kee is our Independent Director, and is presently the Executive Director of ecoWise Holdings Limited ("ecoWise"). He joined ecoWise in 2004, and is presently responsible for operations management, business development and the implementation of business strategies. From 2001 to 2004, he was an Executive Director of iSpring Capital Sdn Bhd, a company which he co-founded, specialising in venture capital investment and corporate advisory services, where he is presently involved in a non-executive capacity. From 1996 to 2001, he was general manager of Hwang-DBS Securities Bhd, Shah Alam, Malaysia. From 1993 to 1995, he was senior manager with DBS Securities Pte Ltd, Singapore, where he was the head of the China Desk. Teoh Teik Kee is a Chartered Accountant by training, and has worked with KPMG Peat Marwick McLintock in London and with Pricewaterhouse in Singapore. He 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 as well as a member of the Association of Corporate Treasurers in the United Kingdom. He also serves as an Independent Director on the board of City e-Solutions Ltd and Westcomb Financial Group Limited, which are public companies listed in Hong Kong and Singapore respectively.



Ong Wei Jin

Ong Wei Jin is our Independent Director, and is presently a partner of Colin Ng & Partners, a firm of advocates and solicitors. His main areas of practice are corporate finance and general corporate law. Prior to joining Colin Ng & Partners in 1999, he was a Deputy Public Prosecutor with the Commercial Affairs Department from 1991 to 1999. He obtained a Bachelor of Law (Honours) from the National University of Singapore, a Masters in Business Administration from the University of Hull and a Masters of Law from the National University of Singapore. Currently, he is an Independent Director of Vantage Corporation Ltd, a company listed on the SGX-ST.

KEY EXECUTIVES

Zhuang Qian Kun

Zhuang Qian Kun is our Group Deputy General Manager (Administration and Human Resource) and is primarily responsible for overseeing the human resource and other general administrative functions of our Group. Prior to joining our Group, Zhuang Qian Kun had been the deputy general manager of Shandong Luzhou from 2004. From 2001 to 2003, he was the general manager of Yishui Chemical. Between 1980 to 2001, he was with Shandong Yishui Artificial Fertilizer Factory for approximately 19 years where he was subsequently appointed as the production manager. He graduated with a Chemistry degree from the Shandong Province Linyi Education College in 1987.

Zhang Cong Qiao

Zhang Cong Qiao is our Chief Financial Controller, and is responsible for the accounting, reporting and other financial functions of our Group. He is well-versed in the accounting and financial fields and has more than 15 years of experience in these aspects, particularly auditing and financial management. He started his career as a certified public accountant in the PRC in 1985 and continued his practice as a public auditor and tax consultant till 2003. He joined Shandong Luzhou as its divisional finance deputy general manager in September 2003 before he joined our Company as the Chief Financial Controller following the listing. Zhang Cong Qiao obtained a degree in cost analysis from the Shandong Economic College in October 1989 and holds qualifications as a certified public accountant, valuer, tax consultant, auditor and construction cost analyst in the PRC.

Niu Ji Chao

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

Mao De Qing

Mao De Qing is the Group Deputy General Manager (Sales and Supply). His primary responsibility relates to the daily operations and management and sales and purchase and procurement of the subsidiaries. He started his career at Shandong Yishui Luzhou Food Product Factory in May 1997. He joined Liaoning Luzhou as general manager later in that year and Shaanxi Luzhou as general manager in 2000. In 2000, he joined Shandong Yishui Luzhou Food Product Pte. Ltd. as operations manager and was later promoted to general manager in 2001, he worked as a department manager of Shandong Luzhou from 2001 to 2003 before he joined Liaoning Luzhou as general manager in 2003. Prior to joining our Group, Mao De Qing had assumed the post of deputy general manager of Shandong Luzhou from September 2004. He has received formal education up to pre-University level.

Zhang Hui

Zhang Hui is the Group Deputy General Manager (Finance) of our Group, responsible (together with Zhang Cong Qiao, our Chief Financial Controller) for the financial functions of our Group, as well as our regulatory and compliance requirements relating to our listing. He started his career in Shandong Yishui Leather Products Factory as a factory finance manager, where he was employed from 1990 to 1996. From 1997 to 2001, he was a finance manager with Yishui Yihe Shanzhuang, and from 2001 to 2002, he was finance manager with Yishui Chemical. He joined Shandong Luzhou in 2002, where he assumed the role of divisional finance manager until 2004. Zhang Hui was appointed as our divisional financial manager in January 2005, and promoted to his present appointment in April of the same year. Zhang Hui holds a diploma in Economic Management from the Shandong Agricultural Management Institute, a diploma in Accountancy and Statistics from the Shandong Linyi Commerce School, and a PRC certified public accountant qualification.

Leo Jenn Ing, Jennie

Leo Jenn Ing, Jennie is the Finance Manager of our Group, responsible for the corporate finance function of our Group, and oversees matters relating to accounting, financial administration, and the compliance and reporting obligations of our Group. Prior to joining our Group, Leo Jenn Ing, Jennie was employed by Semitech Electronics Ltd from 2002 to 2005, where she was responsible for the financial reporting functions of the company. She assisted in the preparations for the company's listing on the SGX-ST in December 2002. After the company's listing, she was responsible for the company's statutory matters as well as ensuring compliance with listing requirements and corporate governance. Her last appointments held with Semitech Electronics Ltd were the company finance manager and joint company secretary. From 2001 to 2002, she was an accountant at OUB Centre Limited where she was responsible for day-to-day accounting and finance matters. From 1998 to 2001, she was an assistant accountant at Enersave Holdings Limited where she assisted in preparing financial statements for the group's business units. Leo Jenn Ing, Jennie holds a Bachelor of Accountancy degree from Nanyang Technological University and is a non-practising member of the Institute of Certified Public Accountants of Singapore.

CORPORATE INFORMATION

Board of Directors

Niu Ji Xing	<i>Managing Director</i>
Gao Zhong Fa	<i>Executive Director</i>
Wang De You	<i>Executive Director</i>
Kong Xiang Chao	<i>Non-Executive Director</i>
Teoh Teik Kee	<i>Independent Director</i>
Ong Wei Jin	<i>Independent Director</i>

Audit Committee

Teoh Teik Kee	<i>Chairman</i>
Kong Xiang Chao	
Ong Wei Jin	

Remuneration Committee

Teoh Teik Kee	<i>Chairman</i>
Kong Xiang Chao	
Ong Wei Jin	

Nominating Committee

Ong Wei Jin	<i>Chairman</i>
Teoh Teik Kee	
Niu Ji Xing	

Company Secretaries

Leo Jenn Ing, Jennie, CPA
Vincent Lim Bock Hui, LLB (Hons)

Registered Office

88 Amoy Street Level Three
Singapore 069907

Singapore Office

137 Market Street, #07-02
The Bank of East Asia Building
Singapore 048943

Head Office and Principal Place of Address

No 18 Luzhou Road, Yishui
Shandong Province 276400
Peoples' Republic of China

Share Registrar

Lim Associates (Pte) Ltd
10 Collyer Quay #19-08
Ocean Building
Singapore 049315

Auditors

Moores Rowland
133 Cecil Street #15-02
Keck Seng Tower
Singapore 069535
Partner in charge: Ms Angie Tan Mong Geok
(since 2005)

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 Adviser

Citigate Dewe Rogerson i.MAGE

Investor Relations Contact

Ms Jennie Leo
Email: jennieleo@luzhoufood.com

GROUP STRUCTURE



Luzhou Bio-chem
Technology Limited

100%

Luzhou
Bio-chem
Technology
(Liaoning)
Co., Ltd

100%

Luzhou
Bio-chem
Technology
(Shandong)
Co., Ltd

100%

Luzhou
Bio-chem
Technology
(Shaanxi)
Co., Ltd



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CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) of Luzhou Bio-chem Technology Limited (the “Company”) recognises the importance of corporate governance and the offering of high standards of accountability to the shareholders of our Company.

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

BOARD MATTERS

The Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the Company.

The Board is collectively responsible for the success of the Company. The Board works with the management of the Company (the “Management”) to achieve this and the Management remains accountable to the Board.

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

The Board, besides its statutory responsibilities, oversees and reviews the management of the Group's business affairs and financial controls, performance and resource allocation. The Board's approval is required for matters such as corporate strategy and business plans, corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposals of assets, major corporate policies on key areas of operations, the release of the Group's quarterly, half-year and full-year financial results and related party transactions of a material nature.

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

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

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

Board Composition and Balance

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

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

Executive Directors

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

Non-Executive Directors

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

CORPORATE GOVERNANCE REPORT

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

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

The profiles of the directors are set out on pages 14 to 16 of this Annual Report. The Board considers the current Board size appropriate for the nature and scope of the Group's operations.

Chairman and Chief Executive Officer

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

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

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

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.

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 are as follows:

- to make 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);
- to ensure that all directors submit themselves for re-nomination and re-election at regular intervals and at least once every three years;
- to determine annually whether a director is independent in accordance with paragraph 2.1 of the Code;
- to formulate and decide 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
- to assess the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

CORPORATE GOVERNANCE REPORT

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 AGM. In addition, Article 117 of the Company's Articles of Association provides that a director appointed by the Board must retire and submit himself for re-election at the next AGM following his appointment.

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

Name of director	Appointment	Date of initial appointment	Date of last re-election	Directorships in listed companies
Niu Ji Xing Age : 37	Executive director	17 November 2004	Refer below*	None
Gao Zhong Fa Age : 43	Executive director	13 May 2005	Refer below*	None
Wang De You Age : 43	Executive director	13 May 2005	Refer below*	None
Kong Xiang Chao Age : 61	Non-executive director	13 May 2005	Refer below*	None
Teoh Teik Kee Age : 46	Non-executive independent director	13 May 2005	Refer below*	ecoWise Holdings Limited City e-Solutions Ltd Westcomb Financial Group Limited
Ong Wei Jin Age : 39	Non-executive independent director	13 May 2005	Refer below*	Vantage Corporation Ltd

*According to Article 117 of the Company's Articles of Association, Mr Niu Ji Xing, Mr Gao Zhong Fa, Mr Wang De You, Mr Kong Xiang Chao, Mr Teoh Teik Kee and Mr Ong Wei Jin will retire at the Company's forthcoming Annual General Meeting ("AGM") and will be eligible for re-election.

Key information on the individual directors and their shareholdings in the Company are set out on pages 14 to 16 and 30 of this Annual Report. None of the directors hold shares in the subsidiaries of the Company.

Board Performance

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

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

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

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

Access to Information

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

CORPORATE GOVERNANCE REPORT

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

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

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for 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 and Mr Ong Wei Jin are non-executive independent directors while Mr Kong Xiang Chao is a non-executive director.

The terms of reference of the RC have been approved and adopted. The duties and powers of the RC are as follows:

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

The RC's recommendations should be 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 proportion of the remuneration especially that of executive directors, should be linked to performance.

CORPORATE GOVERNANCE REPORT

In setting remuneration packages, the Company take into consideration the remuneration packages and employment 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 and independent directors are paid directors' fees, taking into account factors such as effort and time spent, and responsibilities of the directors. Directors' fees are recommended by the Board for approval at the Company's AGM.

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

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

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.

The following shows the level and mix of each director's remuneration paid or payable for the financial year ended 31 December 2005:

Remuneration bands	Salary ⁽¹⁾ %	Directors' fees ⁽²⁾ %	Total %
Directors			
<i>Below S\$250,000</i>			
Niu Ji Xing	100	-	100
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			
<i>Below S\$250,000</i>			
Zhuang Qian Kun	100	-	100
Zhang Cong Qiao	100	-	100
Niu Ji Chao	100	-	100
Mao De Qing	100	-	100
Zhang Hui	100	-	100
Leo Jenn Ing Jennie	100	-	100

Notes:-

(1) Salary is inclusive of salary and pension funds.

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

No employee who is an immediate family member of any director was paid more than S\$150,000 during the financial year ended 31 December 2005.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board is accountable to the shareholders while the Management is accountable to the Board.

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

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

Audit Committee

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

The AC comprises the following members:

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

Mr Teoh Teik Kee and Mr Ong Wei Jin are non-executive independent directors while Mr Kong Xiang Chao is a non-executive director.

The terms of reference of the AC has been approved and adopted. The roles and functions of the AC are as follows:

- review with the external auditors their audit plan, their evaluation of the system of internal accounting controls, their audit report, their management letter and the Management's response;
- review the internal control and procedures and assist in co-ordination between the external auditors and the Management, review the co-operation and assistance given by the Management to the external auditors, and discuss problems and concerns, if any, arising from the interim and final audits and any matters which the auditors may wish to discuss (in the absence of the Management where necessary);
- ensure that the internal audit function is on its face adequate and has appropriate standing within the Company, ensure the adequacy of the internal audit function, and review the scope and results of the internal audit procedures including the effectiveness of the internal audit function;
- ensure that a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management, is conducted by the internal and/or external auditors – where the Group is comprised of various companies, to ensure that one such review is carried out every annum for at least one company in the Group;
- review the financial statements of the Group with the assistance and advice of the external auditors before submission to the Board for approval to ensure compliance on the face of the financial statements with any stock exchange and statutory/regulatory requirements;
- commission and review and discuss with the external auditors, if necessary, any fraud or irregularity, or failure of internal controls, or infringement of any relevant laws, rules or regulations, highlighted or reported to the audit committee, which has or is likely to have a material impact on the Group's operating results and/or financial position, and the Management's response;
- review the scope and results of the audit and the independence and objectivity of the external auditors, and where the external auditors also supply a substantial volume of non-audit services to the Company, keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;

CORPORATE GOVERNANCE REPORT

- review the independence of the external auditors annually, and recommend to the Board the appointment, re-appointment or removal of the external auditors and approve the remuneration and terms of engagement of the external auditors;
- approve internal control procedures and arrangements for all interested person transactions;
- where staff raises concerns about possible improprieties in matters of financial reporting or other matters in confidence, ensure that there is independent investigation of such matters and appropriate follow-up action;
- review transactions falling within the scope of the SGX-ST Listing Manual, in particular, matters pertaining to Interested Person Transactions and Acquisitions and Realisations as laid down in Chapters 9 and 10 respectively;
- review any potential conflicts of interests;
- undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee; and
- generally undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual, and by such amendments made thereto from time to time.

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

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

The Company's external auditors are Moores Rowland and during the financial period ended 31 December 2005, the non-audit work by the external auditors comprises services rendered as the Company's Reporting Accountants for the Company's initial public offering. The AC is satisfied that their independence has not been impaired by the provision of such services.

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

Internal Control

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

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

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

Internal Audit

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

The Board recognises the importance of maintaining a system of internal controls to safeguard the shareholders' investments and the Company's assets. An internal audit team has been formed to perform the internal audit function. The internal audit team reports primarily to the AC.

The internal auditors plan its internal audit schedules in consultation with, but independent of, the Management. The internal audit plan is submitted to the AC for approval prior to the commencement of the internal audit. The AC will review the activities of the internal auditors, including overseeing and monitoring of the implementation of improvements required on internal control weaknesses identified.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders

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

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

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

Greater Shareholder Participation

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

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

DEALING IN SECURITIES

The Group has adopted and implemented policies in line with the SGX-ST's Best Practices Guide 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.

INTERESTED PERSON TRANSACTIONS

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

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

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

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

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

The interested person transactions are set out on page 54 of this Annual Report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' ATTENDANCE AT BOARD, AUDIT COMMITTEE, REMUNERATION COMMITTEE AND NOMINATING COMMITTEE MEETINGS

The number of meetings held and attendance at the meetings since the date of incorporation to 15 March 2006 were as follows:

Name of director	Board		Audit Committee		Remuneration Committee		Nominating Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Niu Ji Xing	1	1	-	-	-	-	1	1
Gao Zhong Fa	1	-*	-	-	-	-	-	-
Wang De You	1	1	-	-	-	-	-	-
Kong Xiang Chao	1	1	2	2	1	1	-	-
Teoh Teik Kee	1	1	2	2	1	1	1	1
Ong Wei Jin	1	1	2	2	1	1	1	1

* overseas posting

STATEMENT OF COMPLIANCE

The Board confirms that for the financial period ended 31 December 2005, the Company has generally adhered to the principles and guidelines as set out in the Code, save as otherwise explained above.

REPORT OF THE DIRECTORS

We are pleased to submit this annual report to the members of the Company, together with the audited financial statements for the financial period from 30 September 2004 (date of incorporation) to 31 December 2005.

The Company was incorporated on 30 September 2004 and was admitted to the main board of the Singapore Exchange Securities Trading Limited ("Singapore Exchange") on 24 February 2006.

DIRECTORS

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

Niu Ji Xing	(appointed 17 November 2004)
Gao Zhong Fa	(appointed 13 May 2005)
Wang De You	(appointed 13 May 2005)
Kong Xiang Chao	(appointed 13 May 2005)
Teoh Teik Kee	(appointed 13 May 2005)
Ong Wei Jin	(appointed 13 May 2005)

DIRECTORS' INTERESTS

According to the register kept by the Company for the purposes of Section 164 of the 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 and warrants in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

The Company (ordinary shares of S\$0.025 each)	Holdings registered in name of director		Holdings in which a director is deemed to have an interest	
	At 30 September 2004 or date of appointment, if later	At 31 December 2005	At 30 September 2004 or date of appointment, if later	At 31 December 2005
Niu Ji Xing	-	-	-	157,950,000 #
Gao Zhong Fa	-	18,200,000	-	-
Wang De You	-	13,000,000	-	-

The shares are held by Faith Corporate International Limited, a company incorporated in the British Virgin Islands, whose sole director and shareholder is the Managing Director, Niu Ji Xing.

By virtue of Section 7 of the Act, Niu Ji Xing is deemed to have interests in the other subsidiaries of Luzhou Bio-chem Technology Limited, all of which are wholly-owned, at his date of appointment and at the end of the financial period.

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

There were no changes in any of the above mentioned interests in the Company between the end of the financial period and 21 January 2006.

Neither at the end of, nor at any time during the financial period, was the Company a party to any arrangement whose objects are, or one of whose objects 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.

Except as disclosed in this report and in note 27 to the financial statements, since the date of incorporation, no director has received or become entitled to receive, a benefit 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.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

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

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

The Audit Committee performs the functions specified in Section 201B of the Companies Act, the Listing Manual and the Code of Corporate Governance.

The Audit Committee has held two meetings since the date of incorporation.

The Audit Committee performs the following functions:

- (a) review with the external auditors the audit plan, their evaluation of the system of internal controls, their audit report, their management letter and our management's response;
- (b) review the financial statements and the external auditors' reports as well as balance sheet and income statements, before submission to our Board for approval, focusing, in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements;
- (c) ensure that the internal audit function is on its face adequate and has appropriate standing within the Company, ensure the adequacy of the internal audit function, and review the scope and results of the internal audit procedures including the effectiveness of the internal audit function;
- (d) review the internal controls and procedures and ensure co-ordination between the external auditors and our management, reviewing the assistance given by our management to the auditors, and discuss problems and concerns, if any arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of our management where necessary);
- (e) consider the appointment or re-appointment of the external auditors and matters relating to resignation or dismissal of auditors;
- (f) review any interested person transactions falling within the scope of Chapter 9 of the Listing Manual;
- (g) review any potential conflicts of interest;
- (h) undertake such other reviews and projects as may be requested by our Board and reporting to our Board its findings from time to time on matters arising and requiring the attention of our Audit Committee; and
- (i) generally undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

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 recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE (CONT'D)

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, Moores Rowland, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

The auditors, Moores Rowland, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

.....
Niu Ji Xing
Director

.....
Gao Zhong Fa
Director

Dated: 15 March 2006

STATEMENT BY THE DIRECTORS

In the opinion:-

- (a) the financial statements set out on pages 35 to 56 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 2005 and of the results, changes in equity and cash flows of the Group and of the changes in equity of the Company for the period from 30 September 2004 (date of incorporation) to 31 December 2005; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

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

On behalf of the Board of Directors

.....
Niu Ji Xing
Director

.....
Gao Zhong Fa
Director

Dated: 15 March 2006

REPORT OF THE AUDITORS

TO THE MEMBERS OF LUZHOU BIO-CHEM TECHNOLOGY LIMITED

We have audited the accompanying financial statements of Luzhou Bio-chem Technology Limited (the "Company") and its subsidiaries (collectively, the "Group") for the period from 30 September 2004 (date of incorporation) to 31 December 2005 as set out on pages 35 to 56. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion:-

- (a) the consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005 and of the results, changes in equity and cash flows of the Group and of the changes in equity of the Company for the period from 30 September 2004 (date of incorporation) to 31 December 2005; and
- (b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

.....
MOORES ROWLAND
CERTIFIED PUBLIC ACCOUNTANTS

Singapore: 15 March 2006

BALANCE SHEETS

AS AT 31 DECEMBER 2005

	Note	Group 2005 RMB'000	Company 2005 RMB'000
ASSETS			
Non-current assets			
Plant and equipment	3(i)	254,389	-
Land use rights	3(ii)	2,400	-
Investment in subsidiaries	4	-	39,668
		256,789	39,668
Current assets			
Inventories	5	79,124	-
Trade receivables	6	32,902	-
Other receivables, deposits and prepayments	7	15,196	20,821
Cash and cash equivalents	8	94,315	203
		221,537	21,024
TOTAL ASSETS		478,326	60,692
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	9	32,613	32,613
Share premium	10(a)	8,773	8,773
Statutory reserves	10(b)	23,996	-
Accumulated profits		48,620	15,703
TOTAL EQUITY		114,002	57,089
LIABILITIES			
Non-current liabilities			
Amount owing to a related party	11	20,162	-
Bank loans	12	136,600	-
Deferred taxation	13	589	-
		157,351	-
Current liabilities			
Trade payables	14	89,959	-
Other payables and accruals	15	64,694	579
Amount owing to a subsidiary	16	-	3,024
Amount owing to a related party	11	2,520	-
Bank loans	12	49,800	-
		206,973	3,603
TOTAL LIABILITIES		364,324	3,603
TOTAL EQUITY AND LIABILITIES		478,326	60,692

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

CONSOLIDATED INCOME STATEMENT

**FOR THE PERIOD FROM 30 SEPTEMBER 2004
(DATE OF INCORPORATION) TO 31 DECEMBER 2005**

	Note	Group 30/09/2004 to 31/12/2005 RMB'000
Continuing Operations		
Revenue	17	1,071,128
Cost of sales		(874,565)
		<hr/>
Gross profit		196,563
Other operating income	18	7,722
Selling and distribution expenses		(81,124)
Administrative expenses		(40,191)
Other operating expenses		(1,066)
Finance expenses	19	(9,288)
		<hr/>
Profit before taxation	20	72,616
Taxation	22	-
		<hr/>
Profit after taxation		72,616
		<hr/> <hr/>
Earnings per share (RMB cents) – Basic	23	27.9
		<hr/> <hr/>

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE PERIOD FROM 30 SEPTEMBER 2004 (DATE OF INCORPORATION) TO 31 DECEMBER 2005

GROUP	Share Capital	Share Premium	Statutory Reserves	Accumulated Profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at date of incorporation	*	-	-	-	*
Issue of shares	32,613	-	-	-	32,613
Premium from issue of shares	-	8,773	-	-	8,773
Net profit for the period	-	-	-	72,616	72,616
Transfer to statutory reserves	-	-	23,996	(23,996)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2005	32,613	8,773	23,996	48,620	114,002
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

COMPANY	Share Capital	Share Premium	Accumulated Profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at date of incorporation	*	-	-	*
Issue of shares	32,613	-	-	32,613
Premium from issue of shares	-	8,773	-	8,773
Net profit for the period	-	-	15,703	15,703
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2005	32,613	8,773	15,703	57,089
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

* represents less than RMB 1,000

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 30 SEPTEMBER 2004
(DATE OF INCORPORATION) TO 31 DECEMBER 2005

	Note	Group 30/09/2004 to 31/12/2005 RMB'000
Cash flows from operating activities		
Profit before taxation		72,616
Adjustments for:		
Depreciation of plant and equipment		24,732
Gain on disposal of plant and equipment		(525)
Interest expense		9,019
Interest income		(338)
Provision for doubtful debts		1,012
Operating profit before working capital changes		106,516
Changes in working capital:		
Inventories		(24,585)
Trade receivables		(4,636)
Other receivables, deposits and prepayments		128
Amounts owing by related parties		800
Trade payables		537
Other payables and accruals		5,447
Amount owing to related parties		(3,588)
Cash deposits pledged		13,006
Cash deposit released from pledge		(12,165)
Cash generated from operations		81,460
Income taxes paid		-
Net cash generated from operating activities		81,460
Cash flows from investing activities		
Purchase of plant and equipment	25	(98,812)
Proceeds from disposal of plant and equipment		4,620
Cash outflow on acquisition of net assets	24	(18,822)
Interest income received		338
Net cash used in investing activities		(112,676)
Cash flows from financing activities		
Proceeds from issue of shares		41,386
Interest expense paid		(9,019)
Repayment of bank borrowings		(149,400)
Proceeds from bank borrowings		230,400
Net cash generated from financing activities		113,367
Net increase in cash and bank balances		82,151
Cash and bank balances at beginning of period		-
Cash and bank balances at end of period	8	82,151

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

The financial statements were authorised for issue by the directors on 15 March 2006.

1. Domicile and Activities

The Company was incorporated in the Republic of Singapore under the name of Luzhou Bio-chem Technology Pte. Ltd. on 30 September 2004 under the Companies Act as a private limited company. On 16 September 2005, the Company became a public limited company and its name was changed to Luzhou Bio-chem Technology Limited.

The Company was admitted to the main board of Singapore Exchange on 24 February 2006.

Its registered office is located at 88 Amoy Street, Level Three, Singapore 069907.

The principal place of business is at 137 Market Street, #07-02 The Bank of East Asia Building, Singapore 048943.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are described in Note 4 to the financial statements.

The Group, comprising the Company and its subsidiaries, was formed pursuant to a restructuring exercise ("Restructuring Exercise") undertaken for the purpose of the Company's listing on the main board of the Singapore Exchange as set out in the prospectus of the Company dated 16 February 2006 ("the Prospectus").

2. Summary of Significant Accounting Policies

2.1 (a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Council on Corporate Disclosure and Governance.

The Group adopted the following new/revised FRSs which are relevant to its operations:

FRS 1 (revised 2004)	Presentation of Financial Statements
FRS 2 (revised 2004)	Inventories
FRS 10 (revised 2004)	Events After the Balance Sheet Date
FRS 16 (revised 2004)	Property, Plant and Equipment
FRS 21 (revised 2004)	The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised 2004)	Related Party Disclosures
FRS 27 (revised 2004)	Consolidated and Separate Financial Statements
FRS 32 (revised 2004)	Financial Instruments: Disclosure and Presentation
FRS 33 (revised 2004)	Earnings Per Share
FRS 36 (revised 2004)	Impairment of Assets
FRS 39	Financial Instruments: Recognition and Measurement
FRS 103	Business Combinations

The adoption of the above new/revised FRSs does not have any material impact on the Group's financial statements.

The financial statements are presented in Renminbi ("RMB") and rounded to the nearest thousand, unless otherwise stated. They are prepared on the historical cost basis.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

2. Summary of Significant Accounting Policies (cont'd)

2.1 (a) Basis of preparation (cont'd)

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.

2.1 (b) Future changes in FRS

The Group has not applied the new or amended standards and interpretations that have been issued as of balance sheet date but are not yet effective.

The following new or amended standards and interpretations do not apply to the activities of the Group:-

FRS 40	Investment Property
FRS 106	Exploration for and Evaluation of Mineral Resources
FRS 19 (Amendment)	Employee Benefits – Actuarial gains and losses, group plan and disclosures
FRS 39 (Amendment)	Financial instruments: Recognition and Measurement - cash flow hedge accounting of forecast intragroup transactions
INT FRS 104	Determining whether an arrangement contains a lease
INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group has not considered the impact of new or amended standards and interpretations issued after the balance sheet date.

2.1 (c) 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. Apart from information disclosed elsewhere in these financial statements, the following summarise significant judgments made in the process of applying the Group's accounting policies.

Allowance for bad and doubtful debts

The provisioning 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's judgement. At the balance sheet date, the trade receivables, net of provision, amounted to approximately RMB 32,902,000. 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 conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

2.2 Functional currency

The functional currency of the Company is RMB. As income is denominated primarily in RMB, the directors are of the opinion that the RMB dollar reflects the economic substance of the underlying events and circumstances relevant to the Company.

2.3 Consolidation

Subsidiaries are companies controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities.

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

2. Summary of Significant Accounting Policies (cont'd)

2.3 Consolidation (cont'd)

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

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

2.4 Foreign currencies

Foreign currency transactions

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

Presentation currency

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

2.5 Plant and Equipment and Depreciation

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

	<u>Estimated useful lives</u>	<u>Estimated residual value as a percentage of cost</u>
Machinery and tools	2 - 12 years	5%
Office equipment and furniture	5 years	5%
Motor vehicles	6 years	5%
Renovation	5 years	5%

Plant and equipment acquired pursuant to the asset transfer agreements are depreciated over its remaining useful lives.

Assets under construction represent plant and equipment under construction or being installed and is stated at cost. No depreciation is provided for assets under construction until the relevant assets are completed and ready for use.

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

Gain and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit before taxation.

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

2. Summary of Significant Accounting Policies (cont'd)

2.5 Plant and Equipment and Depreciation (cont'd)

The useful lives and residual values, if not insignificant, are reassessed annually.

2.6 Inventories

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

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

2.7 Financial assets

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

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

Loans and receivables

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

2.8 Trade and other receivables

Trade and other receivables, including intercompany balances, are classified and accounted for as loans and receivables under FRS 39. They are recognised and carried at original invoiced amount, which represents their fair value on initial recognition, less allowance for any uncollectible amounts. Allowance for doubtful receivables is made when collection of the full amount is no longer probable. Bad debts are written off when identified. The accounting policy for this category of financial assets is stated in Note 2.7.

2.9 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and short term, highly liquid investment that are readily convertible to known amounts of cash and that are subject to an insignificant risk of charges in value.

2.10 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

2. Summary of Significant Accounting Policies (cont'd)

2.10 Impairment of tangible and intangible assets excluding goodwill (cont'd)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.11 Liabilities and interest-bearing liabilities

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

2.12 Research and development expenses

Research and development expenses incurred on individual projects are expensed to the income statement as incurred unless the project's future recoverability can be foreseen with reasonable assurance.

2.13 Employee benefits

Subsidiaries incorporated in the PRC are required to provide certain staff pension benefits to their employees under existing PRC legislation. Pension contributions are provided at rates stipulated by the PRC legislation and are contributed to a pension fund managed by government agencies, which are responsible for paying pensions to the retired employees. These benefits are accounted for on an accrual basis and charged to the income statement when incurred.

Obligations for contributions to defined contribution pension plans for the Company are recognised as an expense in the income statements as incurred.

2.14 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event where it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

2.15 Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

2. Summary of Significant Accounting Policies (cont'd)

2.15 Deferred tax (cont'd)

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.

2.16 Revenue recognition

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

(i) Sale of goods

Revenue from sale of goods is recognised upon delivery of goods and acceptance by customers. It is recorded net of returns, trade allowances, duties and taxes.

(ii) Interest income

Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rates applicable.

(iii) Grants and subsidies

Grants and subsidies are recognised when the right to receive payment is established.

2.17 Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are recognised in the income statements on a straight-line basis over the term of the lease.

2.18 Finance costs

Interest expense and similar charges are expensed in the income statements in the period in which they are incurred.

3. (i) Plant and Equipment

Group	Machinery	Office	Motor		Assets	Total
	and tools	equipment	vehicles	Renovation	under	
	RMB'000	RMB'000	RMB'000	RMB'000	construction	RMB'000
Cost						
Acquisition of net assets	170,602	13,430	8,588	152	10,213	202,985
Additions	45,723	2,935	982	253	71,721	121,614
Disposals	(6,867)	(113)	-	-	-	(6,980)
Reclassifications	10,360	18	9	-	(10,387)	-
As at 31 December 2005	219,818	16,270	9,579	405	71,547	317,619
Accumulated Depreciation						
Acquisition of net assets	35,713	2,937	2,647	86	-	41,383
Charge for the period	20,587	2,705	1,410	30	-	24,732
Disposals	(2,849)	(36)	-	-	-	(2,885)
As at 31 December 2005	53,451	5,606	4,057	116	-	63,230
Net Book Value						
As at 31 December 2005	166,367	10,664	5,522	289	71,547	254,389

As at 31 December 2005, machineries with net book values amounting to approximately RMB 66,906,000 and RMB 20,677,000 have been pledged to secure the bank loans and trade financing facilities as disclosed in Notes 12 and 14 to the financial statements respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

3. (ii) Land Use Rights

Land use right stated at cost is amortised over the lease period of 50 years.

**Group
2005
RMB'000**

Additions during the period and as at 31 December 2005

2,400

4. Investment in subsidiaries

**Company
2005
RMB'000**

Investment in subsidiaries, at cost

39,668

The Company has the following subsidiaries as at 31 December 2005:

<u>Name of company</u>	<u>Principal Activities</u>	<u>Country of incorporation</u>	<u>Registered capital</u>	<u>Effective percentage of equity held by Group %</u>
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	USD 800,000	100
鲁洲生物科技(山东)有限公司 (Luzhou Bio-chem Technology (Shandong) Co., Ltd.)	Production and distribution of sweeteners, corn starch and by-products of corn starch.	People's Republic of China	USD 1,300,000	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	USD 2,700,000	100

These subsidiaries have been audited by Moores Rowland for consolidation purposes.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

5. Inventories

	Group 2005 RMB'000
Raw materials	53,589
Work-in-progress	4,255
Finished goods	19,340
Packaging, materials and consumables	1,940
	<u>79,124</u>

6. Trade receivables

	Group 2005 RMB'000
Trade receivables	32,350
Bills receivable	400
Value-added tax receivable	1,610
	<u>34,360</u>
Allowances for doubtful receivables	(1,458)
	<u>32,902</u>

The Group's primary exposure to credit risk arises through its trade receivables. Concentration of credit risk relating to trade receivables is limited due to the Group's many varied customers. These customers are internationally dispersed, engage in a wide spectrum of manufacturing and distribution activities, and sell in a variety of end markets. The Group's historical experience in the collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond the amounts provided for collection losses is inherent in the Group's trade receivables.

7. Other receivables, deposits and prepayments

	Group 2005 RMB'000	Company 2005 RMB'000
Advances paid for listing expenses	3,976	3,976
Other receivables	3,051	4
Deposits	4,325	35
Prepayments	2,262	-
Advances paid to suppliers	1,582	-
Dividends receivable from subsidiaries	-	16,806
	<u>15,196</u>	<u>20,821</u>

8. Cash and Cash Equivalents

	Group 2005 RMB'000	Company 2005 RMB'000
Cash and bank balances	82,151	203
Deposits pledged	12,164	-
	<u>94,315</u>	<u>203</u>

Cash deposits are pledged to banks for trade financing facilities (Note 14).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

9. Share capital

	No. of shares (‘000)	Company 2005	
		S\$’000	RMB’000
Authorised:			
Ordinary shares of S\$0.025 each	4,000,000	100,000	490,400
Issued and fully-paid:			
Ordinary shares of S\$0.025 each	260,000	6,500	32,613

The Company was incorporated in Singapore on 30 September 2004 as a private limited company under the name of Luzhou Bio-chem Technology Pte. Ltd.. As at 30 September 2004, the Company had an authorised share capital of S\$100,000,000 comprising 100,000,000 ordinary shares of S\$1.00 each, and an issued and paid-up share capital of S\$1.00 comprising 1 ordinary shares of S\$1.00 each.

On 19 April 2005, the shareholders of the Company approved the sub-division of every one ordinary share of S\$1.00 in the authorised and issued share capital into 20 ordinary shares of S\$0.05 each. The authorised share capital of S\$100,000,000 was thus divided into 2,000,000,000 ordinary shares of S\$0.05 each and the issued and paid-up share capital of S\$1.00 was divided into 20 ordinary shares of S\$0.05 each. Subsequently on the same day, the issued and paid-up share capital of the Company was increased to S\$767.50 comprising 15,350 ordinary shares of S\$0.05 each, following the allotment and issue of 15,330 ordinary shares of S\$0.05 each at par for cash.

On 20 April 2005, following the completion of a Restructuring Exercise, the issued and paid-up share capital of the Company was increased to S\$1,000 comprising 20,000 ordinary shares of S\$0.05 each, following the allotment and issue of a total of 4,650 ordinary shares of S\$0.05 each for a total consideration of US\$5,000,000 for cash.

On 7 September 2005, the shareholders of the Company approved, inter alia, the following:-

- (a) the allotment and issue of 129,980,000 ordinary shares of S\$0.05 each to the existing shareholders by way of capitalisation of the share premium account;
- (b) the sub-division of every one ordinary share of S\$0.05 in the authorised and issued share capital into two ordinary shares of S\$0.025 each;

As at 31 December 2005, the authorised share capital of the Company was S\$100,000,000 comprising 4,000,000,000 ordinary shares of S\$0.025 each and the issued and paid-up capital of the Company was S\$6,500,000 comprising 260,000,000 ordinary shares of S\$0.025 each.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

9. Share capital (cont'd)

The following is a summary of the above movements in the authorised and issued share capital of the Company:

	<u>Number of ordinary shares of S\$1.00 each</u>	<u>Number of ordinary shares of S\$0.05 each</u>	<u>Number of ordinary shares of S\$0.025 each</u>	<u>S\$'000</u>	<u>RMB'000</u>
Authorised:					
At date of incorporation	100,000,000	-	-	100,000	490,400
Subdivision of every one ordinary share into 20 ordinary shares	(100,000,000)	2,000,000,000	-	-	-
Subdivision of every one ordinary share of S\$0.05 each into 2 ordinary shares of S\$0.025 each	-	(2,000,000,000)	4,000,000,000	-	-
	<u>-</u>	<u>-</u>	<u>4,000,000,000</u>	<u>100,000</u>	<u>490,400</u>
Issued and fully-paid:					
At date of incorporation	1	-	-	_*	_*
Subdivision of every one ordinary share into 20 ordinary shares	(1)	20	-	-	-
Issue of 129,999,980 ordinary shares of S\$0.50 each	-	129,999,980	-	6,500	32,613
Subdivision of every one ordinary share of S\$0.05 each into 2 ordinary shares of S\$0.025 each	-	(130,000,000)	260,000,000	-	-
	<u>-</u>	<u>-</u>	<u>260,000,000</u>	<u>6,500</u>	<u>32,613</u>

* represents less than RMB 1,000

10. Reserves

(a) Share Premium account

The application of the share premium account is governed by Section 69 of the Companies Act, Chapter 50.

(b) Statutory Reserves

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

11. 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 2005 RMB'000
Current	
Within 1 year	2,520
Non-current	
Within 2 – 5 years	10,081
After 5 years	10,081
	20,162
	20,162

12. Bank loans

	Group 2005 RMB'000
Non-current liabilities	
Secured bank loans	22,700
Unsecured bank loans	113,900
	136,600
Current liabilities	
Secured bank loans	9,400
Unsecured bank loans	40,400
	49,800
Total borrowings	186,400
Maturity of bank loans	
Within 1 year	49,800
After 1 year but within 2 years	136,600
Total borrowings	186,400

Included in the secured and unsecured bank loans are loans of RMB 136.6 million with an original term of 1 year and repayable by 31 December 2006. It is classified as a non-current liability in the balance sheet as an agreement has been reached with the bank to refinance the loan up to year 2007.

As at 31 December 2005, the bank loans of the Group were secured or guaranteed by the following:

- (i) the plant and equipment owned by the Group (Note 3(i));
- (ii) the properties owned by related parties;
- (iii) bank balances amounting to RMB 20.0 million from a related party;
- (iv) personal guarantee given by the Company's Managing Director, Niu Ji Xing;
- (v) corporate guarantee given by a related party; and
- (vi) corporate guarantees given by third parties.

The average interest rate is 6.1% per annum for the period ended 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

13. Deferred taxation

The movements in the Group's deferred tax liabilities during the period is as follows:-

	Acquisition of net assets RMB'000	As at December 2005 RMB'000
Other temporary differences	<u>589</u>	<u>589</u>

14. Trade payables

	Group 2005 RMB'000
Trade payables	59,312
Bills payable	27,500
Value added tax	3,147
	<u>89,959</u>

Bills payable are secured by cash deposits (Note 8) and plant and equipment (Note 3(i)). The average effective interest rate is 3.1% per annum for the period ended 31 December 2005.

15. Other payables and accruals

	Group 2005 RMB'000	Company 2005 RMB'000
Other payables	26,856	-
Retention money due to contractors and suppliers	4,808	-
Accrued operating expenses	22,783	579
Advances from customers	10,001	-
Other tax payable	246	-
	<u>64,694</u>	<u>579</u>

Other payables included loans from third parties and security deposits placed by employees totalling RMB 7,377,550. The average effective interest rates is 5.7% per annum for the period ended 31 December 2005.

16. Amount owing to a subsidiary

Amount owing to a subsidiary is non trade in nature, unsecured, interest free and with no fixed terms of repayment.

17. Revenue

	Group 30/09/2004 to 31/12/2005 RMB'000
Sale of goods	<u>1,071,128</u>

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

18. Other operating income

	Group 30/09/2004 to 31/12/2005 RMB'000
Gain from sale of consumables and waste materials	2,988
Gain from disposal of plant and equipment (net)	525
Grants and subsidies	2,610
Interest income – bank	338
Others	1,261
	<u>7,722</u>

19. Finance expenses

	Group 30/09/2004 to 31/12/2005 RMB'000
Trade financing charges	269
Interest expense – bank loans and bills payable	8,294
Interest expense – others	725
	<u>9,288</u>

20. Profit before taxation

The following items have been included in arriving at profit before taxation:

	Group 30/09/2004 to 31/12/2005 RMB'000
Cost of inventories	874,565
Depreciation of plant and equipment	24,732
Directors' remuneration:	
- directors of the Company	515
Directors' fee	170
Exchange loss (net)	904
Gain on disposal of plant and equipment	(525)
Operating lease expenses	5,053
Research and development expenses	903
Staff costs	47,426
	<u>874,565</u>

No non-audit fees has been paid to the auditors for the period ended 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

21. (a) Staff costs

	Group 30/09/2004 to 31/12/2005 RMB'000
Salaries and bonuses	39,917
Pension and other staff related costs	7,509
	<u>47,426</u>

21. (b) Directors' remuneration

	Group 30/09/2004 to 31/12/2005 RMB'000
Directors' remuneration:	
Salary	504
Pension and other staff related costs	11
	<u>515</u>

21. (c) Key management personnel compensation

The key management consist of directors and their remuneration is stated in Note 21(b) above.

22. Taxation

The tax expense on the results for the financial period differs from the amount of income tax determined by applying the Singapore standard period rate of income tax to profit before taxation due to the following factors:-

	Group 30/09/2004 to 31/12/2005 RMB'000
Profit before taxation	72,616
Tax rate	20%
Tax at the applicable tax rate	14,523
Effect of different tax rates in other countries	9,583
Tax exemptions	(24,106)
Tax expense for the period	<u>-</u>

With the approval of the China Tax Bureau, 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

31 DECEMBER 2005

23. Earnings Per Share

	Group 30/09/2004 to 31/12/2005 RMB'000
Basic earnings per share is based on:	
Net profit attributable to ordinary shareholders	72,616

Basic earnings per share is calculated based on the profit attributable to shareholders for the period and the weighted average number of the ordinary shares of the Company.

	No. of shares ('000)
Weighted average number of shares outstanding during the period	28
Bonus shares	259,960
Weighted average number of ordinary shares	259,988

As there are no dilutive potential ordinary shares during the period, no diluted earnings per share is presented.

24. Cash outflow on acquisition of net assets

The attributable net assets acquired pursuant to the Restructuring Exercise is as follows:-

	Group 2005 RMB'000
Plant and equipment	161,602
Inventories	54,538
Trade receivables	29,278
Other receivables, deposits and prepayments	15,324
Amount owing by related parties	800
Cash and cash equivalents	34,625
Trade payables	(89,422)
Other payables and accruals	(59,247)
Amount owing to a related party	(200)
Bank loans	(105,400)
Provision for taxation	(868)
Deferred taxation	(589)
Purchase consideration	40,441
Less: Cash and bank balances acquired	(21,619)
Cash outflow on acquisition of net assets	18,822

25. Non-cash transaction

During the period ended 31 December 2005, the Group acquired plant and equipment and land use rights with an aggregate cost of approximately RMB 124,014,000 of which approximately RMB 25,202,000 was acquired by means of amount owing to related party. Cash payment of approximately RMB 98,812,000 was made during the period ended 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

26. Commitments

	Group 2005 RMB'000
Capital expenditure contracted but not provided for in the financial statements:	
- Commitments in respect of the construction of plant and equipment	37,574

At 31 December 2005, the Group was committed to make the following payments in respect of operating leases:-

	Group 2005 RMB'000
Within 1 year	4,500
After 1 year but within 5 years	4,500
	<u>9,000</u>

27. Significant Related Party Transactions

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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

	Group 2005 RMB'000
Transactions with parties in which directors have substantial interest:-	
Sales	2,193
Purchases	3,386
Purchase of plant and equipment	1,579
Operating lease expenses	<u>4,500</u>

28. Segment Reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format – business segments is based on the Group's management and internal reporting structure.

The Group is engaged in only one business segment which pertains to the development, manufacturing and sale of sweeteners, corn starch and the by-products.

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

31 DECEMBER 2005

28. Segment Reporting (cont'd)

Geographical segments

	Group 30/09/2004 to 31/12/2005 RMB'000
Segment revenue by location of customers	
- PRC	934,899
- Overseas	136,229
	1,071,128
	Group 30/09/2004 to 31/12/2005 RMB'000
Capital expenditures by geographical location of assets	
- PRC	124,014
	124,014
	Group 2005 RMB'000
Segment assets by geographical location of assets	
- PRC	460,780
- Overseas	17,546
	478,326

29. 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

Credit risk is the potential financial loss resulting from the failure of a customer or a counterparty to settle its financial and contractual obligations to the Group, as and when they fall due.

The Group has established credit review on new customers and credit terms were only extended to creditworthy customers. These debts are continually monitored and therefore the Group does not expect to incur material credit losses.

At the balance sheet date, there is no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2005

29. Financial Risk Management Objectives and Policies (cont'd)

Liquidity risk

Liquidity risk refers to the risk in which the Group is unable to meet its short-term obligations. Liquidity risk is managed by matching the payment and receipt cycles. The Group's operations are financed through equity, profits and interest-bearing borrowings.

Interest rate risk

The Group obtains financing through interest-bearing borrowings which comprise of bills payable, borrowings from third parties and banks. 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 Notes 12, 14 and 15 to the financial statements.

Foreign currency risk

The Group incurs foreign currency risk on revenue that are denominated in a currency other than Chinese Renminbi. The currency giving rise to this risk is primarily United States Dollars ("USD").

The Group does not hedge trade receivables denominated in USD as the risk is not expected to be significant.

30. Fair Values

The carrying amounts of the Group's cash and cash equivalents, trade and other receivables, trade and other payables and current portion of bank loans approximate their fair values due to their short maturities. The fair value of amount owing to a related party as at 31 December 2005 was estimated based on discounted cash flows using a discount rate which approximate the effective interest rate is approximately RMB 19,621,000. The difference between the carrying amount and fair value of approximately RMB 3,061,000 was not recognised as it was not significant in the context of the financial statements as a whole.

31. Proposed final dividend

The directors recommend the payment of a first and final dividend of RMB 4.1 cents per ordinary share, totalling approximately RMB 14.8 million for the period ended 31 December 2005.

32. Comparative Information

No comparative information were presented as this is the first set of financial statements since the date of incorporation.

SUPPLEMENTARY FINANCIAL INFORMATION
UNAUDITED PROFORMA AND AUDITED ACTUAL GROUP INCOME STATEMENTS
YEAR/PERIOD ENDED 31 DECEMBER 2004 AND 2005

	Audited Actual 2005 RMB'000	Unaudited Proforma 2004 RMB'000
Revenue	1,071,128	917,502
Cost of sales	(874,565)	(800,101)
Gross profit	196,563	117,401
Other operating income	7,722	10,171
Selling and distribution expenses	(81,124)	(51,767)
Administrative expenses	(40,191)	(19,260)
Other operating expenses	(1,066)	(1,004)
Finance expenses	(9,288)	(8,848)
Profit before taxation	72,616	46,693
Taxation	-	(2,196)
Profit after taxation	<u>72,616</u>	<u>44,497</u>
Earnings per share (RMB cents) – Basic	<u>27.9</u>	<u>17.1</u>

Basis of presentation

The 2005 figures are based on the audited financial statements of the Company and its subsidiaries for the period ended 31 December 2005 while the 2004 figures are based on the unaudited Proforma Group financial statements which have been prepared on the basis of the assumptions set out on the prospectus dated 16 February 2006.

The unaudited Proforma Group income statements for 2004 have been prepared in accordance with the accounting policies of the Group as set out in note 2 to the Group's audited financial statements and on the assumption that the current Group structure as outlined in note 4 to the Group's audited financial statements has been in existence since 1 January 2004.

The objective of the unaudited Proforma Group income statements for 2004 is to show what the historical information might have been had the Group existed at 1 January 2004. However, the unaudited Proforma Group income statements are not necessarily indicative of the results of the operations that would have been attained had the above-mentioned Group structure actually existed on that date.

The unaudited Proforma Group income statements for 2004 are prepared in accordance with Singapore Financial Reporting Standards ("FRS").

STATISTICS OF SHAREHOLDINGS

AS AT 14 MARCH 2006

Issued and fully paid-up capital	:	S\$30,819,768
Number of shares	:	360,000,000
Class of shares	:	Ordinary share
Voting rights	:	One vote per share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS		NO. OF SHAREHOLDERS	%	NO. OF SHARES	%	
1	-	999	0	0.00	0	0.00
1,000	-	10,000	524	45.29	3,530,000	0.98
10,001	-	1,000,000	618	53.41	43,765,000	12.16
1,000,001 and above			15	1.30	312,705,000	86.86
TOTAL			1,157	100.00	360,000,000	100.00

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders as at 14 March 2006)

NAME	DIRECT INTEREST	%	DEEMED INTEREST	%
NIU JI XING	-	-	157,950,000	43.88
FAITH CORPORATE INTERNATIONAL LIMITED	157,950,000	43.88	-	-
TOH BEE YONG	33,852,000	9.40	-	-
GAO ZHONG FA	18,200,000	5.06	-	-
CHUA ENG ENG	18,135,000	5.04	-	-

Note :

Mr Niu Ji Xing's deemed interest refers to the 157,950,000 ordinary shares held by Faith Corporate International Limited by virtue of Section 7 of the Companies Act, Cap. 50

STATISTICS OF SHAREHOLDINGS

TWENTY LARGEST SHAREHOLDERS

	NAME	NO. OF SHARES	%
1.	FAITH CORPORATE INTERNATIONAL LIMITED	157,950,000	43.88
2.	TOH BEE YONG	33,852,000	9.40
3.	GAO ZHONG FA	18,200,000	5.06
4.	CHUA ENG ENG	18,135,000	5.04
5.	CITIBANK NOMINEES SINGAPORE PTE LTD	17,789,000	4.94
6.	ROYAL BANK OF CANADA (ASIA) LTD	15,000,000	4.17
7.	WANG DE YOU	13,000,000	3.61
8.	ZHANG CONG QIAO	10,400,000	2.89
9.	TEO RAYMOND	8,463,000	2.35
10.	DBS NOMINEES PTE LTD	8,144,000	2.26
11.	HSBC (SINGAPORE) NOMINEES PTE LTD	5,870,000	1.63
12.	CHEAH SIEW CHIN	1,793,000	0.50
13.	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	1,750,000	0.49
14.	KIM ENG SECURITIES PTE. LTD.	1,315,000	0.37
15.	OCBC SECURITIES PRIVATE LTD	1,044,000	0.29
16.	TEH KIU CHEONG	1,000,000	0.28
17.	WONG SER CHONG	1,000,000	0.28
18.	YAP SEW	1,000,000	0.28
19.	PHILLIP SECURITIES PTE LTD	843,000	0.23
20.	NG HIN LEE	816,000	0.23
	TOTAL	317,364,000	88.18

FREE FLOAT

Based on the information provided to the Company as at 14 March 2006, approximately 32.95% 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.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the First Annual General Meeting of LUZHOU BIO-CHEM TECHNOLOGY LIMITED will be held at Amara Hotel Singapore, 165 Tanjong Pagar Road, Connection 1, Level 3 Singapore 088539 on Friday, 28 April 2006 at 2.00 p.m. for the following purposes:-

AS ORDINARY BUSINESS:-

1. To receive and adopt the Directors' Report and the Audited Accounts for the period from 30 September 2004 (date of incorporation) to 31 December 2005 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a first and final one-tier tax exempt dividend of RMB 4.1 cents per ordinary share for the financial period ended 31 December 2005. **(Resolution 2)**

3. To re-elect the following Directors retiring pursuant to Article 117 of the Company's Articles of Association:-

Mr Niu Ji Xing	(Resolution 3)
Mr Gao Zhong Fa	(Resolution 4)
Mr Wang De You	(Resolution 5)
Mr Kong Xiang Chao	(Resolution 6)
Mr Teoh Teik Kee	(Resolution 7)
Mr Ong Wei Jin	(Resolution 8)

Mr Kong Xiang Chao, Mr Teoh Teik Kee and Mr Ong Wei Jin will, upon re-election as Directors of the Company, remain as members of the Audit Committee. The Board considers Mr Kong Xiang Chao to be non-independent, and Mr Teoh Teik Kee and Mr Ong Wei Jin to be independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

4. To approve the payment of Directors' fees of RMB 169,530.00 for the period from 30 September 2004 (date of incorporation) to 31 December 2005. **(Resolution 9)**

5. To re-appoint Messrs Moores Rowland as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 10)**

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

AS SPECIAL BUSINESS:-

7. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:-

That pursuant to Section 161 of the Companies Act, Cap. 50 and the Listing Manual of the Singapore Exchange Securities Trading Limited, authority be and is hereby given to the Directors of the Company to allot and issue shares or convertible securities from time to time (whether by way of rights, bonus or otherwise) and upon such terms and conditions and for such purposes and to such person as the Directors may in their absolute discretion deem fit, provided that the aggregate number of shares and convertible securities issued pursuant to such authority shall not exceed 50% of the total share capital of the Company for the time being, of which the aggregate number of shares and convertible securities issued other than on a pro-rata basis to the existing shareholders of the Company shall not exceed 20% of the total share capital of the Company for the time being (the percentage of issued share capital being based on the issued share capital at the time such authority is given after adjusting for new shares arising from the conversion of convertible securities or employee share options on issue at the time such authority is given and any subsequent consolidation or subdivision of shares) and, unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or on the date by which the next Annual General Meeting is required by law to be held, whichever is earlier. [see explanatory note] **(Resolution 11)**

NOTICE OF ANNUAL GENERAL MEETING

BY ORDER OF THE BOARD

Leo Jenn Ing Jennie
Vincent Lim Bock Hui
Company Secretaries
Singapore
12 April 2006

EXPLANATORY NOTE:

The Ordinary Resolution proposed in item 7 above, if passed, will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting to allot and issue shares and convertible securities in the Company up to an amount not exceeding in total fifty per cent (50%) of the total share capital of the Company for the time being for such purposes as they consider would be in the interest of the Company, provided that the aggregate number of shares to be issued other than on a pro-rata basis to existing shareholders pursuant to this Resolution shall not exceed twenty per cent (20%) of the total share capital of the Company for the time being. The percentage of issued capital is based on the Company's issued capital at the time the proposed Ordinary Resolution is passed after adjusting for (a) new shares arising from the conversion of convertible securities or employee share options on issue at the time the proposed Ordinary Resolution is passed and (b) any subsequent consolidation or subdivision of shares. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

NOTE:

- (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 88 Amoy Street, Level Three, Singapore 069907 not less than 48 hours before the time appointed for holding the above Meeting.

NOTICE OF BOOKS CLOSURE

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of Luzhou Bio-chem Technology Limited (the "Company") will be closed on 9 May 2006 for the preparation of dividend warrants.

Duly completed registrable transfers received by the Company's Share Registrar, Lim Associates (Pte) Ltd at 10 Collyer Quay #19-08 Ocean Building, Singapore 049315 up to 5.00 p.m. on 8 May 2006 will be registered to determine shareholders' entitlements to such dividend.

Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares as at 5.00 p.m. on 8 May 2006 will be entitled to the proposed dividend.

Payment of the dividend, if approved by shareholders at the Annual General Meeting to be held on 28 April 2006, will be made on 24 May 2006.

BY ORDER OF THE BOARD

Leo Jenn Ing Jennie
Vincent Lim Bock Hui
Company Secretaries
Singapore
12 April 2006

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LUZHOU BIO-CHEM TECHNOLOGY LIMITED

(Company Registration No. 200412523N)
 (Incorporated in the Republic of Singapore)

PROXY FORM
 ANNUAL GENERAL MEETING

IMPORTANT

- For investors who have used their CPF monies to buy shares in the capital of Luzhou Bio-chem Technology Limited, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent FOR INFORMATION ONLY.
- This Proxy Form is 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.

I/We, _____ (Name)
 of _____ (Address)
 being a member/members of LUZHOU BIO-CHEM TECHNOLOGY LIMITED (the "Company") hereby appoint:

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

and/or (delete as appropriate)

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

and my/our proxy/proxies to vote for me/us on my/our behalf, at the Annual General Meeting ("AGM") of the Company, to be held on Friday, 28 April 2006 at 2.00 p.m., and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific directions as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the AGM.

No.	Resolutions relating to:	For*	Against*
1	Directors' Report and Accounts for the period from 30 September 2004 (date of incorporation) to 31 December 2005.		
2	Payment of proposed first and final one-tier tax exempt dividend		
3	Re-election of Mr Niu Ji Xing as a Director		
4	Re-election of Mr Gao Zhong Fa as a Director		
5	Re-election of Mr Wang De You as a Director		
6	Re-election of Mr Kong Xiang Chao as a Director		
7	Re-election of Mr Teoh Teik Kee as a Director		
8	Re-election of Mr Ong Wei Jin as a Director		
9	Approval of Directors' fees amounting to RMB 169,530.00		
10	Re-appointment of Messrs Moores Rowland as Auditors		
11	Authority to allot and issue new shares		

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

Dated this _____ day of _____, 2006.

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

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



Notes

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or two proxies to attend and vote in his stead.
2. Where a member appoints more than one proxy, the proportion of the shareholding to be represented by each proxy shall be specified in this proxy form. If no proportion is specified, the Company shall be entitled to treat the first named proxy as representing the entire shareholding and any second named proxy as an alternate to the first named or at the Company's option to treat this proxy form as invalid.
3. A proxy need not be a member of the Company.
4. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in section 130A of the Companies Act, Cap. 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this proxy form will be deemed to relate to all the shares held by you.
5. This proxy form must be deposited at the Company's registered office at 88 Amoy Street, Level Three, Singapore 069907 not less than 48 hours before the time set for the Meeting.
6. This proxy form must be under the hand of the appointor or of his attorney duly authorised in writing. Where this proxy form is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
7. Where this proxy form is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be duly stamped and deposited with this proxy form, failing which this proxy form shall be treated as invalid.

General

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



LUZHOU BIO-CHEM TECHNOLOGY LIMITED

(Company Registration Number: 200412523N)

137 Market Street, #07-02

The Bank of East Asia Building

Singapore 048943

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