STANDING **STRONG**

LUZHOU BIO-CHEM TECHNOLOGY LIMITED

Annual Report 2013

CONTENTS

01 Corporate Profile

03 Executive Chairman's Message

06 Financial Highlights

09 Operations Review

12 Financial Review

15 Group Structure

16 Board of Directors

18 Senior Management

20 Corporate Information

21 Corporate Governance Report

34 Financial Contents

Corporate Profile

A 25-year track record of success

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

Large production capacity

Luzhou has strategically increased its production capacity by 60% since 2006, and currently maintains a total production capacity of 1,040,000 tonnes per annum through six production facilities in the PRC. These include two production facilities in Yishui, Shandong Province, and one each in Fushun, Liaoning Province, Xingping, Shaanxi Province, Xiping, Henan Province and Pengshan, Sichuan Province. These facilities operate with their own water resources and several also have their own power generating capabilities. With one exception, all of them straddle key corn producing provinces in the PRC to ensure easy access to ample and competitively priced raw materials. Luzhou has also expanded its range of higher value-added products to include sugar alcohol, corn oil, amino acids and high fructose corn syrup 55.

Solid business capabilities

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

Strong customer base

Luzhou serves a diverse customer base across multiple industries, among them customers in the food and beverage, fermentation, medical and pharmaceutical sectors. Through higher production capacity and plant utilisation, it is able to assure its customers of reliable and cost effective solutions. Some of its customers include Tsingtao Brewery Co.,Ltd (青岛啤酒股份有限公司), Henan Lian Hua Weijing Co., Ltd (河南莲花味精股份有限公司), Coca-Cola China (可口可乐中国公司), Pepsi-Cola China (百事可乐中国公司) and China Resources Snow Breweries Co.,Ltd. (华润雪花啤酒 (中国) 有限公司).

SOLID **FUNDAMENTALS**

We will continue to move forward with the same determination and drive whether in good or challenging times. Our success has been built on solid fundamentals which will enable us to remain competitive and stay ahead of the competition.

Executive Chairman's Message

"Our new Liaoning facility that began full production in 2013 is geared to make headway into the North Eastern regions of China with the delivery of consistently high quality products".

Mr Niu Ji Xing
Executive Chairman

Dear Shareholders,

On behalf of the Board of Directors of Luzhou Bio-Chem Technology Limited ("Luzhou"), I hereby present the Group report and financials for the year ended 31 December 2013 (FY2013), together with our business strategies for FY2014.

Market Overview

FY2013 was an especially challenging year for Luzhou, due to sluggish growth in the domestic market that greatly weakened consumer demand. The corn sweetener industry's production grew faster than its downstream industries in recent years, which has resulted in the oversupply of corn sweetener products, and in turn adversely affected our products' competitiveness. Coupled with a fall in the prices of cane sugar, an invariable vulnerability impacted selling prices for corn sweeteners and related products.

With such unfavourable market forces and the overall unpredictability of a global economy that witnessed the fall of small market players and major restructuring by larger competitors during the year, Luzhou worked hard to focus its resources on optimising production efficacies and maintaining quality standards, efforts that saw the Group weather a difficult year in review.

Financial Performance

For the financial year ended 31 December 2013, the Group posted total revenue of RMB3 billion, down 11.5% from the RMB3.4 billion it recorded in FY2012 due to the steep decline in demand for corn refining products and the drastic fall in selling prices. The consequent impact on gross profit margins was a downward change of 30.9%, from 6.5% for the year in review compared to 9.4% in FY2012.

Net loss before tax stood at RMB110.6 million, from a profit of RMB24.4 million the year before. Key factors of this less-than-ideal financial performance were largely attributed to higher administrative expenses, especially the higher depreciation charge of plant and equipment and staff cost resulting from the temporary stoppage of production of certain products in certain subsidiaries, as well as the higher interest-bearing bank borrowings.

Executive Chairman's **Message**

While Luzhou actively reconfigured its production lines to maintain its market competitiveness during the course of the year, our production capacity did not significantly change from the 1,040,000 tonnes recorded in FY2012, an overall utilisation rate of 72.4%.

Earnings per share on a fully diluted basis for FY2013 was (28.7) RMB cents, while net asset value per ordinary share for the Group as at 31 December 2013 was 104.0 RMB cents, down from 135.2 RMB cents in FY2012. The Group recorded a year-end cash position of RMB66.7 million, against RMB119.5 million as at 31 December 2012.

Business Review

While our plants continued to support the weakened consumer demand, our production of unprofitable products, notably Dextrose Monohydrate and Sorbitol Solution, were scaled down drastically or temporarily halted. Production lines were strategically reconfigured to minimise further losses and defend our competitive position.

Our new Liaoning facility that began full production in 2013 is geared to make headway into the North Eastern regions of China with the delivery of consistently high quality products. It has already begun supplying corn sweeteners to Pepsi Cola, and with new customers like the Wahaha Group and Coca Cola at the Liaoning province that had successfully tested our products, we expect volumes to pick up for 2014.

Equipment upgrading across all our production facilities helped the Group improve our production efficiency for the year. Overall, the upgrading also helped us reduce our costs of production, achieve lower air pollutant emissions, relax labour intensity, and create more conducive working environments.

A research and development drive by the Group has resulted in the successful development of a unique cold brewing syrup that will deliver higher economic efficiency and lower production costs. New refining technology that produces high purity crystalline and starch sugars will also potentially expand the scope of application of our corn sweeteners.

Market Outlook

The outlook for FY2014 is expected to remain challenging with the Group exercising greater cautiousness in the course of its operations. While corn raw material prices are expected to remain stable barring unforeseen market forces, the selling price of cane sugar is still likely to trend downward, with poor domestic market demand for our products in downstream food industries coexisting alongside intense competition from other corn sweetener manufacturers.

With this challenging landscape in our sights, the Group will continue to vigilantly monitor both domestic and export demand for unprofitable products so it can actively implement timely counteractive measures against projected gross and net profit margin pressures for the year.

Strategies for Growth

Calculated steps will be necessary to ensure the Group remains viable and nimble in FY2014. Our priority is to maintain our emphasis on higher value added products to help us defend our competitive position. This will be supported by continued collaborative efforts with domestic and foreign manufacturers, to facilitate research and development as well as equipment upgrades to preserve our quality standards.

To reassure customers of our commitment to offer higher value added products, the Group aims to increase its production capacity utilisation rates. This will be achieved through our fully automated Liaoning plant, new production facilities that have passed stringent specification tests and verifications, as well as energy saving transformation efforts to improve plant productivity.

In view of the anticipated industry-wide market consolidation, the Group will also cautiously explore opportunities to strengthen our market position by re-strategising domestic and international sales efforts to expand our market reach. Plans are also in place to target product quality-sensitive high profile customers in North Eastern and Southern China by leveraging on our established reputation in the industry.

Appreciation

On behalf of the Board of Directors, I would like to express my appreciation to our staff for their tireless efforts, and to customers and all stakeholders for their support through a very demanding year. With market conditions in the coming year expected to further impact the Group's performance, we look forward to your continued support as we prepare to meet the challenges the year ahead will bring.

Niu Ji Xing
Executive Chairman

执行主席
致辞

尊敬的各位股东

我谨代表鲁洲生物科技有限公司董事会呈递集团2013财年财务报表及报告，以及2014财年经营策略。

市场概述

2013年是充满挑战的一年，国内市场增长乏力，极大削弱了消费者需求。近几年淀粉糖行业发展速度高于下游行业发展速度，导致了供大于求的市场格局，影响了产品的市场竞争力；另外蔗糖价格持续下降，必然导致玉米淀粉糖产品及相关产品售价下降。

这些不利的市场因素和全球经济的不可预测性，已导致规模较小的参与者退出，同时规模较大的参与者也实施了重大重组，鉴于此，鲁洲在2013年努力把资源放在生产效率和保障产品质量标准上，这些努力最终帮助集团度过了艰难的一年。

财务业绩

在2013年，集团实现销售收入人民币30亿元，比2012年的人民币34亿元下降11.5%。这主要归因于玉米深加工产品的市场需求大幅下降和产品售价的大幅下降。相应的毛利率从2012年的9.4%下降到2013年的6.5%，下降了30.9%。

税前利润净亏损人民币110.6百万元，而去年税前利润为净盈利人民币24.4百万元。财务业绩不理想，也归因于较高的管理费用和银行借款利息，尤其是因某些子公司停产导致管理费用中的固定资产折旧费和员工成本增加。

在2013年鲁洲为维持市场竞争力积极对生产线做出调整，但值得注意的是，我们的产能与2012年的1,040,000吨相比没有太大变化，总体产能发挥率为72.4%。

2013年充分稀释后每股亏损为人民币28.7分，每股净资产为人民币104.0分，低于2012年的人民币135.2分。期末集团现金头寸为人民币66.7百万元，而在2012年12月31日现金头寸为人民币119.5百万元。

经营回顾

我们的生产工厂在能够满足疲软的消费者需求的条件下，已暂停生产或缩小生产不盈利产品，如口服葡萄糖、山梨醇。对生产线进行战略性调整，以最小化更多亏损、保护我们的竞争地位。

我们的新建辽宁工厂在2013年开始全面生产，旨在通过其稳定的高质量产品，开拓中国东北地区市场。已开始给百事可乐供货，并已通过辽宁省内的娃哈哈集团公司和可口可乐公司的审核，预计2014年产量会增加。

对生产工厂的各项设备改造提高了集团的生产效率，降低了生产成本，减少了空气污染物排放量，降低了员工劳动强度，改善了工作环境。

在研发方面，集团成功开发出了针对性强的冷饮及酿造专用糖浆，这将降低客户的生产成本、提高经济效率。开发了一种生产高纯度结晶产品和淀粉糖的新精制技术，这将会扩大我们玉米淀粉糖产品的应用范围。

市场前景

集团预计2014年依然充满挑战，经营需更加谨慎。若无不可预见的市场因素发生，原材料玉米的价格预计保持平稳，蔗糖价格很可能会下降，来自下游食品行业的国内市场需求贫乏，玉米淀粉糖制造商之间的竞争依然激烈。

在这种充满挑战的环境下，集团会继续小心监控国内外对我公司无利润产品的市场需求变化，以便积极针对预计毛利率和净利率压力，及时采取应对措施。

成长策略

在2014年，为实现盈利和保持竞争力，有必要制定一套有效的计划。我们的优势依然是通过高附加值产品的开发来维持盈利能力。此优势需要有与国内外制造商的持续合作的支持，以促进研发和设备改造，确保我们的产品质量。

为保证实现我们为消费者提供高附加值产品的承诺，集团会努力提高产能发挥率。这将通过我们的全自动化辽宁工厂、经高标准检验和认定的新生产设备以及生产效率提高方面的节能改造来实现。

预计到全行业的市场合并趋势，集团会谨慎寻找巩固市场地位的有利机会，通过重新规划国内外销售方案来扩大市场覆盖面。计划利用我们在行业内已确立的声誉，重点开发东北和华南地区对产品质量要求敏感的高端客户。

感谢语

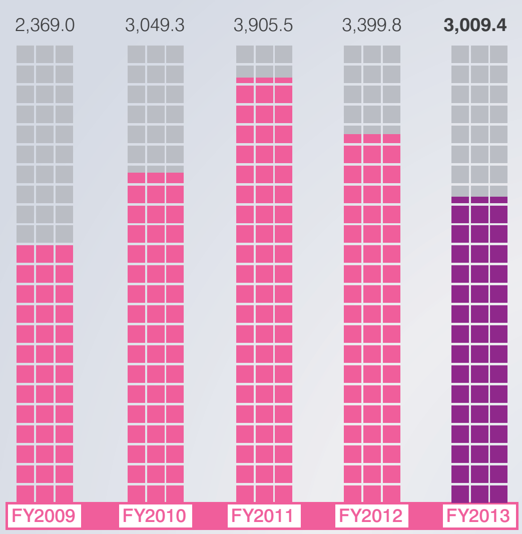
最后，我想代表鲁洲董事会，感谢全体员工的辛勤付出，感谢客户和全体股东在困难时期对企业一如既往的支持。预计来年的市场环境将进一步影响我们的业绩，我们已做好准备迎接2014年的种种挑战，在这种情况下我们希望得到您的继续支持。

牛继星
执行主席

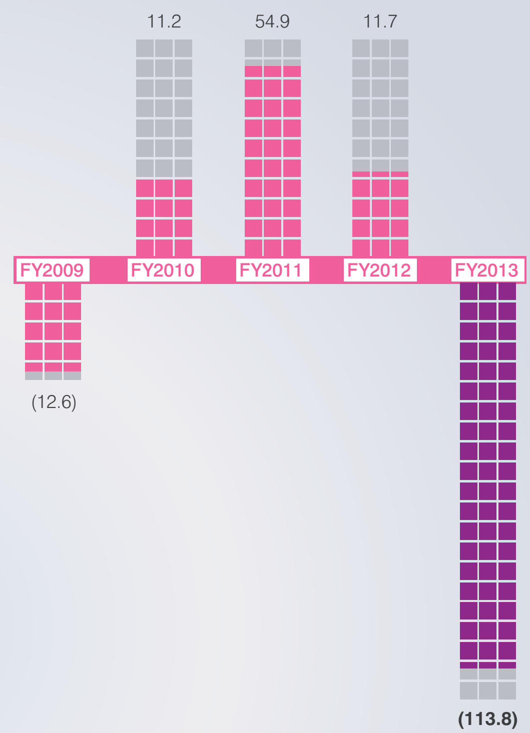
Financial **Highlights**

	2009 RMB million	2010 RMB million	2011 RMB million	2012 RMB million	**2013 RMB million**
Revenue	2,369.0	3,049.3	3,905.5	3,399.8	**3,009.4**
Earnings Before Interests, Tax, Depreciation and Amortisation ("EBITDA")	100.9	129.8	200.6	165.0	**48.6**
Net (Loss) / Profit Before Tax	(12.9)	6.2	61.5	24.4	**(110.6)**
Net (Loss) / Profit After Tax and Non-controlling Interests ("PATNCI")	(12.6)	11.2	54.9	11.7	**(113.8)**
Net (Loss) / Profit Margin (%)	(0.6)	0.2	1.3	0.4	**(3.8)**
Revenue by Operating Segments (%)					
– Corn Refining	89.2	91.0	89.1	89.0	**87.0**
– Animal Feed	9.9	8.4	9.5	9.5	**12.0**
– Others	0.9	0.6	1.4	1.5	**1.0**
	100.0	100.0	100.0	100.0	**100.0**
Revenue by Geographical Segments (%)					
– PRC	91.6	93.9	93.2	94.4	**95.0**
– Other Countries	8.4	6.1	6.8	5.6	**5.0**
	100.0	100.0	100.0	100.0	**100.0**
At Year End					
Net Current Assets	(49.2)	4.7	18.7	68.0	**63.1**
Total Assets	1,337.6	1,574.3	1,832.7	1,778.9	**1,571.4**
Total Equity	497.5	503.5	553.9	535.5	**412.0**
Total Liabilities	840.1	1,070.8	1,278.7	1,243.4	**1,159.4**
Cash and Cash Equivalents	66.8	71.0	103.1	119.5	**66.7**
Per Share (RMB cents)					
(Loss) / Earnings per Share	(3.2)	2.8	13.9	3.0	**(28.7)**
Net Tangible Assets per Ordinary Share	114.0	116.8	132.5	135.2	**104.0**
Dividend per Share (SGD)	–	–	–	0.005	**–**
Returns (%)					
Return on Revenue	(0.60)	0.20	1.30	0.40	**(3.80)**
Return on Shareholders' Equity	(2.88)	1.19	9.10	2.70	**(27.60)**
Return on Total Assets	(1.07)	0.38	2.80	0.80	**(7.20)**
Ratios					
– Inventory Turnover	32	32	30	37	**37**
– Trade Receivables	18	16	16	24	**27**
– Trade Payables	30	32	32	35	**32**
– Debt to Equity Ratio (Times)	0.98	1.23	1.04	1.33	**1.87**

Revenue (RMB million)

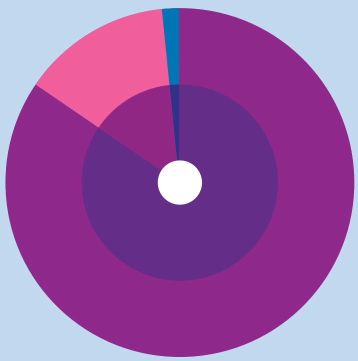


Net Profit / (Loss) After Tax and Non-controlling Interests ("PATNCI") (RMB million)



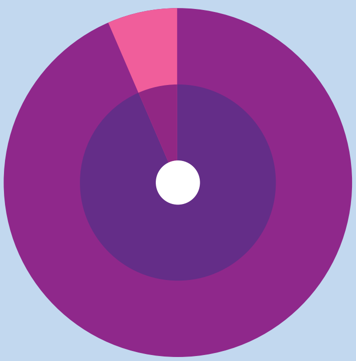
Revenue by Operating Segments (%) FY2013

Corn Refining	87.0%
Animal Feed	12.0%
Others	1.0%



Revenue by Geographical Segments (%) FY2013

PRC	95.0%
Other Countries	5.0%



PRUDENT **MOVES**

Significant achievements are the result of prudent moves that will boost growth, profitability and the creation of shareholders' value. As such, we will continue to employ the right strategies to attain our goals now and in the future.

Operations Review

01	Liaoning plant office building
02	Maltose production line in our Liaoning plant

FY2013 was a tough year for Luzhou in that the depressed market sentiment and accompanying unfavourable price fluctuations imposed various challenges on the Group's operations. In reviewing its performance over the year, however, Luzhou bore these challenges well, implementing a series of strategic measures to fortify its market position and address long-term business competitiveness.

During the year, a weak domestic market situation was exacerbated by general uncertainties in the global economy, elements that significantly affected both domestic and export customer demand for corn sweeteners. While there continued to be good corn harvests, raw material supply controls in the corn sweetener industry pushed up production costs. Coupled with a deflation in cane sugar prices, overall sales volumes for the Group's corn refining segment dipped 5.9% for the year. Conversely, despite the potential threat from the bird flu epidemic, the Group's animal feed segment saw sales volumes rise 7.1%.

The Group's total plant utilisation rate in FY2013 didn't differ much from that of FY2012, with a 72.4% rate for the year compared to 76.2% the year before. Luzhou's new Liaoning manufacturing plant commenced full production in FY2013, and while severe flooding in the region in the third quarter affected its total production output, the Group still managed to leverage its state-of-the-art manufacturing technology to boost production to 40.9% utilisation, a 5.4% rise in capacity over the previous year.

The Group's proactive reconfiguration of its production lines also helped improve utilisation rates. It discontinued its production of the unprofitable Dextrose Monohydrate, while Sorbitol solution production was reduced significantly. The effects of these consolidations were mitigated by deliberate moves to ramp up its production of higher value products such as Glucose Syrup and High Maltose Syrup.

The potential for the Liaoning facility, as well as other newer production facilities of the Group, is vast especially with the growing capability of these facilities to meet the stringent product specifications demanded by reputable customers such as the Wahaha Group, Coca Cola and Pepsi Cola. Along with the enforcement of tighter product quality controls and a re-group of

01


02

Operations **Review**

01	The liquefaction process of Fructose production line
02	Liaoning plant full view

sales strategies, Luzhou is set to make good headway into geographically new consumer markets.

As part of its expansion plans, significant moves are already in place to target North Eastern China, including the high profile markets of Beijing, Tianjin, Hebei and Sichuan. The Group's newly set up Southern sales area for High Fructose Syrup will reinforce its market penetration in this region. By using its solid market reputation to reinforce these efforts, Luzhou is well poised to break new ground in new consumer markets in the year ahead.

In 2013, the Group established a new wholly owned subsidiary, Luzhou Bio-Chem Technology (Henan) Co., Ltd. ("Luzhou Henan"), to take over the production operations of the Xiping branch office of Luzhou Bio-Chem Technology (Shandong) Co., Ltd., another wholly owned subsidiary. Having already passed the stringent specification tests and verification by the China Resources Group, Luzhou Henan will build on the Group's total capacity output, particularly its supply of High Maltose Syrup to facilities in the Henan and Anhui provinces.

To boost overall output productivity across its plants, the Group has made numerous investments in advanced equipment, production line upgrades and storage facility improvements. At its Liaoning sugar factory workshop for example, new centralised automatic configuration and enhanced metering

01

have helped both to increase the overall accuracy of acid-base concentrations and reduce labour intensity.

Consequently, the resultant stabilisation of its production processes has helped Luzhou avoid any opportunity costs arising from inconsistencies in product quality. Investments in thermoelectric plants and upgrades to advanced equipment in its Shandong factory not only helped conserve energy and lower production costs, but also played its part in helping to keep the Group's pollutant emissions well below nationally acceptable quotas.

During the year, Luzhou also implemented a series of energy transformations to conserve its consumption of raw materials and minimise production costs in the face of stiff market competition and low customer demand. In its Henan and Shaanxi facilities for instance, new heat exchangers and boiler flues have reduced overall coal consumption; while modified alcohol evaporators in its Yishui facility have reduced steam consumption. More energy conservation initiatives like these are planned for the coming year.

Existing corporate cost management measures will also remain as an overall gatekeeper to the Group's finances, especially with regard to administrative expenditure, and borrowings that are subject to speculative high interest rates. Other measures, which have been implemented, include curbing unnecessary travel expenses, as well as a strict governance on cost reimbursements.

Moving forward in 2014, the Group remains poised amidst continuing market uncertainties, to execute timely strategies that will boost its business expansion even in a depressed market. While it will take time to regenerate growth for the company, its dedicated focus on streamlining production costs and optimising productivity while keeping tabs on quality standards, make Luzhou quietly confident that it is well prepared to record a better business performance in FY2014.

02

Financial **Review**

Revenue

The financial year ended 31 December 2013 saw Luzhou posting a year-on-year ("y-o-y") revenue decrease of 11.5%, from RMB3.4 billion in FY2012 to RMB3.0 billion. This was attributed to drastic decreases in both sales volumes and selling prices for the Group's corn refining products due to the price competition from competitors and the negative impact of lower cane sugar prices.

The weighted average price of corn refining products dropped 6.8%, a result of a decrease in the prices of corn sweeteners (7.0%), corn starch (6.6%) and by-products (4.6%). Sales volumes for corn sweeteners, corn starch and by-products decreased 6.1%, 10.8% and 2.1% respectively; contributing to a 5.9% drop to 1.05 million tonnes in overall sales volume for the corn-refining segment.

Annual revenue for corn refining products declined 13.6% y-o-y. On the other hand, sales volume for animal feeds grew 7.1% from FY2012, leading to an 11.1% y-o-y increase in annual revenue.

Export revenue in FY2013 dropped 20.8% y-o-y, contributing 5.0% to total revenue as compared to 5.6% in FY2012.

Gross Profit

In FY2013, despite the total cost of sales for the year falling by 8.6%, gross profit for the Group decreased 38.9% y-o-y to RMB195.7 million, on the back of gross margins decreasing 30.9% y-o-y. This impact was due in large part to factors such as the fall in selling prices of corn refining products, a considerable increase in administration expenses, and a rise in finance expenses.

Operating Expenses

A significant rise in business spending greatly impacted the Group's operating expenses in FY2013. Increases in depreciation costs of plant facilities and equipment, as well as staff costs incurred from production stoppages in the Liaoning and Yishui branches, saw administrative expenses rise 20.1% to RMB137.7 million.

On the other hand, selling and distribution expenditure dropped 8.7% to RMB135.0 million due to reduced transportation costs being negated by a rise in business travel expenses and staff costs.

An increase in the allowance for slow-moving inventories helped the Group buffer legal damages recognised in FY2012 and awarded by the High Court of Singapore to the former CEO Mr Cheah Peng Hock. As a result, other operating expenses fell 4.7% to RMB14.8 million.

The slight increment in finance costs to RMB52.3 million in FY2013, up 0.9% y-o-y compared to an increase of 25.4% y-o-y in FY2012, reflected the increase in interest-bearing loans and borrowings by the Group, coupled with lower average interest rates.

The Group's effective tax rate in FY2013 was higher than the statutory tax rate due to the loss-making subsidiaries across the Group. Consequently the Group did not recognise deferred tax assets due to uncertainties in their future taxable profits.

Net Income

The Group posted a net loss of RMB113.8 million in total comprehensive income for FY2013, down from a net profit of RMB14.6 million in FY2012. This was mostly a result of the 38.9% y-o-y drop in gross profit and a 20.1% y-o-y increase in its administrative expenses.

Assets and Liabilities

The Group's current assets as at 31 December 2013 fell 17.3% to RMB615.9 million following declines in inventory by RMB30.1 million, trade receivables by RMB54.7 million, and cash and cash equivalents by RMB52.8 million. An RMB8.7 million increase in other receivables, deposits and prepayments helped mitigate the overall impact.

Inventory turnover days remained at 37 days in FY2013. Trade receivable turnover days however, increased to 27 days in FY2013 from 24 days in FY2012.

The non-current assets of the Group decreased RMB78.5 million in FY2013, the net effect of depreciation and additional capital expenditure used for construction of plant and machinery in the new Liaoning facility, the purchase of packaging containers for finished products, and process renovations to enhance the efficiency of the Group's production lines.

Current liabilities for the Group as at 31 December 2013 stood at RMB552.7 million, down RMB124.1 million as compared to 31 December 2012. This was due to the combined effect of a RMB61.5 million decrease in trade payables, and a decrease of RMB79.0 million in other payables and accruals including amounts owing to related parties. Trade payable turnover days for the year stood at 32 days as compared to 35 days for the previous financial year.

The Group had a debt equity ratio of 1.87 times as at 31 December 2013, against 1.33 times as at 31 December 2012. This was due mainly to an increase in total interest-bearing loans and borrowings, as well as a decline in total equity from the year's net loss.

Non-current liabilities as at 31 December 2013 rose RMB40.1 million to RMB606.6 million, due to an increase in interest-bearing loans and borrowings of RMB50.0 million.

Cash Flows

The Group posted a net operating cash outflow of RMB33.8 million for FY2013. This included operating profit before changes in working capital of RMB43.6 million, after taking into account adjustments for RMB72.9 million in net working capital utilisation and RMB4.5 million in income tax.

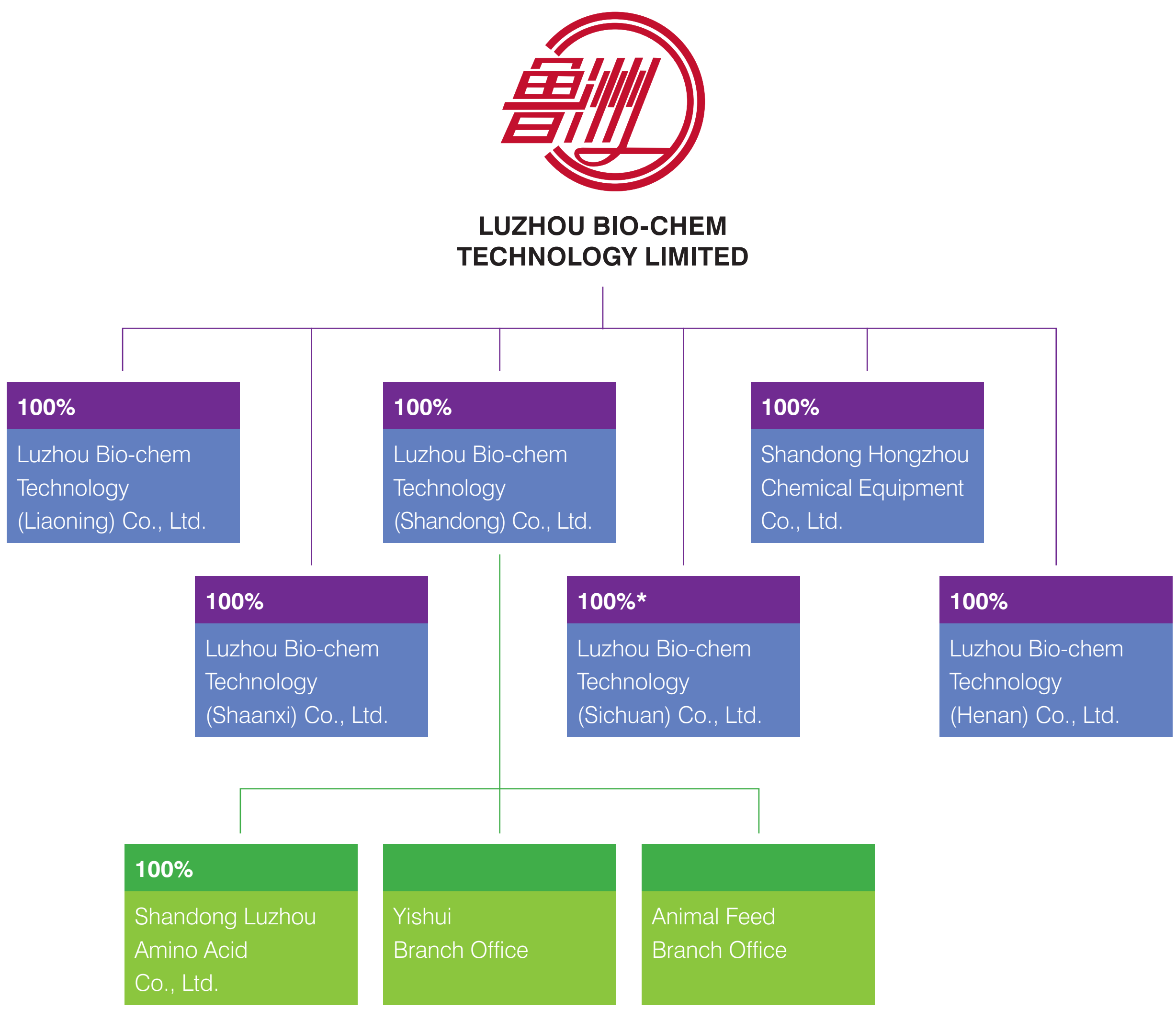
The Group's net cash used in investing activities was RMB17.2 million for FY2013 as a result of its additional capital expenditure for the year. This was partially offset by cash inflows of RMB21.8 million from the disposal of plant and equipment, as well as a government compensation of RMB10.0 million for the relocation of the Group's Liaoning plant.

Financing activities saw net cash outflow for the year at RMB2.3 million, attributed to a RMB52.3 million payment in interest expense, an acquisition of a non-controlling interest in a subsidiary of RMB6.0 million, and a RMB9.7 million dividend payment. This was offset by additional loans and borrowings to finance working capital needs, which included a net increase of a bank loan of RMB57.0 million and RMB11.3 million in an interest-free loan from a Director.

PARTNERSHIP **FOCUS**

At Luzhou, we have many great strengths, but we understand the power of partnerships. We embrace the principle of getting close to the consumer - constantly anticipating consumer behavior and delivering quality products that fulfill those needs.

Group Structure



* The paid up share capital of Luzhou Bio-chem Technology (Sichuan) Co., Ltd. is RMB 96.0 million, of which the Company holds 37.2% (RMB 35.7 million) and Luzhou Bio-chem Technology (Shandong) Co., Ltd. holds 62.8% (RMB 60.3 million).

Board of **Directors**

1. Niu Ji Xing

Niu Ji Xing is our Founder and Executive Chairman. He is responsible for formulating the business strategies and investments of our Group, as well as for its overall management. Mr Niu has more than 15 years of experience in the corn refining industry in PRC. Prior to joining our Group, he was the Board Chairman of the Shandong Luzhou Food Group of China, which comprises a group of enterprises including Shandong Luzhou, Liaoning Luzhou, Shaanxi Luzhou and Hunan Taoyuan. He obtained a certificate in Economic Management (经济管理专业) from the Shandong Economic Management Institute (山东经济管理干部学院) in July 1996. He is presently the Vice Chairman of the China Biotech Fermentation Industry Association, one of the Vice Presidents of the China Food Industry Association (中国食品工业协会), Vice Chairman of the Council of China Food Industry Association (sweeteners) (中国食品工业协会糖果专业委员会理事会) and a member of the National Food Industry Entrepreneurs' Council (全国食品工业企业家委员会).

2. Wang De You

Wang De You is our Executive Director and Group Chief Executive Officer. He is responsible for the overall management of the Group's business and operations. Before assuming the current position, he was our Executive Director and Group Deputy General Manager. Mr Wang has more than 20 years of experience in the food processing and manufacturing industry and was formerly an assistant general manager at Shandong Luzhou before joining our Group. Mr Wang was a deputy general manager at Shandong Luzhou Food Product Factory from 1999 to 2002, a production manager at Shandong Yishui Luzhou Food Product Factory from 1993 to 1999, a production manager at Shandong Yishui Jixing Confectionery Factory from 1990 to 1993 and an assistant factory manager at Shandong Linqu Dairy Product Factory from 1987 to 1990.

Wang De You obtained a certificate in Food Processing and Manufacturing (发酵工程专业) studies from Shandong University (山东大学) in July 1996, and was accredited as a senior engineer by Light Industry Engineering and Technical Position Advance Accreditation Committee of Shandong Province (山东省轻工工程技术职务高级评审委员会) in April 2010. In 2011, he was conferred the Middle-aged and Young Experts Award by the People's Government of Shandong Province. He was also engaged as a part time lecturer in the Master research programme

01


03


05


02


04


06


by China University of Mining and Technology. He is currently a member of the Executive Council of China Biotech Fermentation Industry Association, and of China Starch Industry Association.

3. Gao Zhong Fa

Gao Zhong Fa is our Executive Director. Mr Gao is overall responsible for the management of our New Products Department, including Shandong Hongzhou and the corn oil, animal feed and amino acid production plants. He has more than 20 years of experience in the food industry, particularly in the operations of food product factories. Prior to joining our Group, he had joined Shandong Luzhou in May 2002 as the general manager and was also previously a general manager at Shandong Luzhou Food Product Pte. Ltd. from 2001 to 2002. From 1993 to 2000, he was factory operations manager at Shandong Yishui Luzhou Food Product Pte. Ltd. and prior to that, the factory operations manager at Shandong Yishui Jixing Confectionery Factory from 1988 to 1993, and the operations manager at Shandong Shouguang Gaojia Food Product Pte. Ltd. from 1985 to 1988.

Gao Zhong Fa obtained a certificate in Economic Management (经济管理专业) studies from the Shandong Economic Management Institute (山东经济管理干部学院) in July 1996. He is also a Representative of Municipal People's Congress of the Linyi city in Shandong province and is recognized as a contributor to the National Food Product Advanced Management of Science and Technology (全国食品工业技术先进技术管理工作者).

4. Teoh Teik Kee

Teoh Teik Kee is our Lead Independent Director and is a Chartered Accountant by training, and has worked with KPMG Peat Marwick McLintock in London and PricewaterhouseCoopers in Singapore. From November 2004 to 2010, he was the Executive Director of ecoWise Holdings Limited. He also has extensive experience in investment banking and stock broking when he was with the DBS Group from 1993 to 2001.

Mr Teoh graduated from Aston University, Birmingham, United Kingdom with a Bachelor of Science (Honours) degree in Managerial and Administrative Studies, and is a member of The Institute of Chartered Accountants in England and Wales. He also has a Diploma in Corporate Treasury Management awarded by the Association of Corporate Treasurers in the United Kingdom.

He also serves on the board of Hong Kong listed company, City e-Solutions Ltd as well as Hwang-DBS (Malaysia) Berhad, a public listed company in Malaysia.

5. Kong Xiang Chao

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

Kong Xiang Chao has a professional mechanical production certificate (机械制造工艺与设备专业) from the Jiangsu Mechanical Studies College (江苏省机械职工大学), which he obtained in 1984. He received an engineering qualification (工程师) from the Xuzhou Engineering Series Intermediate Post Accreditation Committee (徐州市工程系列中级职称评审委员会) 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.

6. Ong Wei Jin

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

He is currently an independent director of China XLX Fertiliser Ltd and CFM Holdings Ltd.

Senior **Management**

Zhang Ke

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

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

Li Na

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

Niu Ji Chao

Niu Ji Chao is the General Manager of our Production Department. He is responsible for the management of our engineering operations and sweetener production plant operations. Niu Ji Chao has been involved in engineering works since 1998 as an assistant chief engineer at Shandong Luzhou Food Product Pte. Ltd. He was later appointed the chief engineer and production and technical centre manager at Shandong Luzhou from 2002 to 2003. Prior to joining our Group in 2005, he had been the deputy general manager and chief engineer of Shandong Luzhou from February 2003. Before assuming the current position, he was the Goup's Chief Engineer.

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

Koh Pee Keat

Koh Pee Keat joined our Group as Director of Finance and he is assisting our Group Senior Finance Manager in overseeing the finance matters and corporate finance function of the Group. He has over 17 years of banking experience in DBS Bank in the area of trade finance, international banking, individual banking and enterprise banking. He has worked in DBS New York Agency for about four years in management position. He was the senior vice president of Bexcom Pte Ltd, Singapore, an e-commerce software provider, overseeing its operation, finance and legal matters. Prior to joining our Group, he was the senior vice president/Chief Finance Officer of Westcomb Financial Group Limited overseeing its Group's finance function and operation. Pee Keat holds a Bachelor of Arts (Honours) degree with major in Accounting and Financial Management from the University of Sheffield.

Mao De Qing

Mao De Qing is the General Manager of our Group's Sales & Marketing Department, primarily responsible for managing the sales and marketing of our sweetener related products. He started his career at Shandong Yishui Luzhou Food Product Factory in May 1997 before joining Liaoning Luzhou as general manager later in that year. In 2000, he joined Shandong Yishui Luzhou Food Product Pte. Ltd. as operations manager and was later promoted to general manager. He worked as a department manager of Shandong Luzhou from 2001 to 2003 before he joined Liaoning Luzhou as general manager in 2003. Mao De Qing was deputy general manager of Shandong Luzhou from September 2004 and subsequently our Group Deputy General Manager (Sales and Supply). Before assuming the current position, he was the General Manager of our Yishui Branch Office. He has received formal education up to pre-University level.

Corporate **Information**

Board of Directors

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

Audit Committee

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

Remuneration Committee

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

Nominating Committee

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

Company Secretary

Vincent Lim Bock Hui, LLB (Hons)

Registered Office

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

Singapore Office

8 Burn Road
#07-09
Trivex
Singapore 369977
Tel: (65) 6225 0148
Fax: (65) 6225 1147

Head Office and Principal Place of Business

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

Share Registrar and Share Transfer Office

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

Auditors

Mazars LLP
133 Cecil Street #15-02
Keck Seng Tower
Singapore 069535
Partner in charge: Mr Chan Hock Leong
(Appointed with effect from financial year 2012)

Legal Advisor

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

Principal Bankers

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

Investor Relations Contact

John Koh
Email: johnkoh@luzhou.sg

Corporate **Governance Report**

The Board of Directors (the "**Board**") of Luzhou Bio-chem Technology Limited (the "**Company**", and together with its subsidiaries, the "**Group**") recognises that adherence to the guidelines recommended by the Singapore Code of Corporate Governance 2012 (the "**Code**") would establish good corporate governance practices and offer a high standard of accountability to the shareholders of the Company.

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

STATEMENT OF COMPLIANCE

The Board confirms that for the financial year ended 31 December 2013 ("**FY2013**"), the Company has generally adhered to the principles and guidelines as set out in the Code, save as otherwise explained below.

BOARD MATTERS

The Board's Conduct Of Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

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

In addition to its statutory responsibilities, the principal functions of the Board include:

- reviewing and overseeing the management of the Group's business affairs and financial controls, performance and resource allocation;
- approving matters such as corporate strategy and business plans, corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposals of assets and major corporate policies on key areas of operations;
- establishing a framework of prudent and effective controls to assess and manage risks and safeguard shareholders' interests and the Group's assets; and
- approving the release of the Group's quarterly and full-year financial results and related party transactions of a material nature.

All directors exercise due diligence and independent judgement, and are obliged to act in good faith and consider at all times the interests of the Company.

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

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

Corporate
Governance Report

The number of meetings held and attendance at the meetings during FY2013 are as follows:

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

All directors are given the opportunity to visit the Group's operating facilities and meet with the Management to gain a better understanding of the Group's business operations and corporate governance practices. Newly appointed directors will receive a formal letter explaining their duties and responsibilities, and will undergo orientation and be briefed on the business and governance practices of the Group as well as industry-specific knowledge. All directors who have no prior experience as directors of a listed company will undergo training and/or briefing on the roles and responsibilities as directors of a listed company. The directors are also encouraged to keep themselves abreast of the latest developments relevant to the Group and attendance of appropriate courses and seminars is arranged and funded by the Company. The external auditors update the directors on the new or revised financial reporting standards on an annual basis.

Board Composition and Guidance

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

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

<u>Executive Directors</u>

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

<u>Non-Executive Directors</u>

Teoh Teik Kee	Lead Independent Director
Kong Xiang Chao	Independent Director
Ong Wei Jin	Independent Director

The independent directors make up half 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 corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the directors' independent business judgement with a view to the best interests of the Company. The independence of each independent director is reviewed annually by the NC and the Board. Each independent director is required to complete a checklist annually to confirm his independence based on the guidelines as set out in the Code. The independence of any director who has served on the Board beyond nine years from the date of his first appointment will be subject to more rigorous review, taking into account the need for progressive refreshing of the Board.

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

The current composition of the Board and the Board committees includes a diverse breadth of industry expertise, knowledge and experience in areas such as accounting, finance, legal, strategic planning and business management. This enables the Management to benefit from the external and expert perspectives of the directors who collectively possess the core competencies relevant to the direction and growth of the Group.

The independent directors communicate regularly to discuss matters related to the Group, including the performance of the Management.

The profiles of the directors are set out in the "Board of Directors" section of this Annual Report.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The positions of Chairman and Chief Executive Officer ("**CEO**") are held by separate individuals, who are not immediate family members, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for objective decision-making.

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

Mr Wang De You is the CEO who oversees the day-to-day management of the business, including operations and the execution of business strategies.

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

Corporate Governance Report

In view that the Executive Chairman is not an independent director and is part of the executive management team, Mr Teoh Teik Kee had been appointed as the lead independent director and he is available to shareholders where they have concerns and for which contact through the normal channels of the Executive Chairman or CEO has failed to resolve or is inappropriate. Led by the lead independent director, the independent directors meet without the presence of the other directors, if deemed necessary.

Board Membership

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

The NC comprises the following members:

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

Mr Ong Wei Jin is an independent director and Mr Teoh Teik Kee is the lead independent director.

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

- making recommendations to the Board on relevant matters relating to the review of board succession plans for directors, in particular, the Chairman and for the CEO, the development of a process for evaluation of the performance of the Board, the Board committees and directors, and the review of training and professional development programmes for the Board;
- making recommendations to the Board on the appointment and re-appointment of directors (including alternate directors, if applicable), taking into consideration the composition and progressive renewal of the Board and each director's competencies, commitment, contribution and performance (such as attendance, preparedness, participation and candour);
- ensuring that all directors submit themselves for re-nomination and re-appointment at regular intervals and at least once every three years;
- determining annually, and as and when circumstances require, whether a director (including an alternate director) is independent, bearing in mind paragraph 2.3 of the Code and any other salient factors;
- deciding if a director is able to and has been adequately carrying out his duties as a director of the Company, taking into consideration the director's number of listed company board representations and other principal commitments; and
- assessing the effectiveness of the Board as a whole and its Board committees and the contribution by the Chairman and each individual director to the effectiveness of the Board.

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

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

Name of director	Appointment	Date of initial appointment	Date of last re-election	Current directorships in listed companies	Past directorships in listed companies
Niu Ji Xing	Executive Chairman	17 November 2004	28 April 2011	None	None
Gao Zhong Fa	Executive Director	13 May 2005	26 April 2013	None	None
Wang De You	Executive Director and CEO	13 May 2005	26 April 2012	None	None
Kong Xiang Chao	Independent Director	13 May 2005	26 April 2013	None	None
Teoh Teik Kee	Lead Independent Director	13 May 2005	28 April 2011	City e-Solutions Ltd Hwang-DBS (Malaysia) Berhad	Great Group Holdings Limited
Ong Wei Jin	Independent Director	13 May 2005	26 April 2012	China XLX Fertiliser Ltd, CFM Holdings Ltd	Consciencefood Holdings Ltd

According to Article 107 of the Company's Articles of Association, Mr Niu Ji Xing and Mr Teoh Teik Kee will retire at the Company's forthcoming AGM and will be eligible for re-election.

As none of the executive directors hold more than three directorships in listed companies concurrently, the Board is of the view that there is no necessity at this point in time to determine the maximum number of listed company board representations which a director may hold.

When an existing director chooses to retire or the need for a new director arises, either to replace a retiring director or to enhance the Board's strength, the NC, in consultation with the Board, determines the selection criteria and identifies candidates with the appropriate expertise and experience for the appointment as new director. The NC then meets with the shortlisted candidates with the appropriate profile before nominating the most suitable candidate to the Board for appointment as director.

Key information on the individual directors and their shareholdings in the Company are set out in the "Board of Directors" and "Directors' Report" sections 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 annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

The Board's performance is reflected in the overall performance of the Group. The Board ensures that the Company is in compliance with applicable laws and the Board members act in good faith, with due diligence and care in the best interests of the Company and its shareholders.

Corporate
Governance Report

The NC is responsible for assessing the effectiveness of the Board as a whole and the Board committees and the contribution by the Chairman and each individual director to the effectiveness of the Board. The NC has established a review process and proposed objective performance criteria set out in assessment checklists which are approved by the Board. The performance criteria include factors such as risk management and internal control, and financial performance indicators as well as share price performance. Individual assessment criteria include commitment of time for meetings and any other duties.

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

Access to Information

Principle 6: In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

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. Upon request, the Management will provide any additional information needed for the directors to make informed decisions. The Board has separate and independent access to the Company Secretary and the Management at all times. The Company Secretary facilitates information flow within the Board and its committees. The Company Secretary attends all Board meetings and meetings of the Board committees and ensures that the Company complies with the requirements of the Companies Act and the SGX-ST Listing Manual. The minutes of all Board and Board committees' meetings are circulated to the Board.

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

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

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

The RC comprises the following members:

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

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

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

- reviewing and recommending for endorsement by the entire Board a general framework of remuneration for the directors and key management personnel;
- reviewing and recommending for endorsement by the entire Board the specific remuneration packages for each director as well as for the key management personnel, covering all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards, and benefits in kind;

- reviewing and recommending to the Board the terms of renewal of the service contracts of directors; and
- reviewing the Company's obligations arising in the event of termination of the executive directors and key management personnel's contracts of services, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

The RC's recommendations are submitted for endorsement by the entire Board. No director is involved in deciding his own remuneration. The RC has access to appropriate external expert advice in the field of executive compensation where required.

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

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

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

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

The Company has entered into service agreements with the executive directors. The service agreements are for an initial period of three years and are automatically renewed thereafter on a year-to-year basis on such terms and conditions as the parties may agree. The service agreements provide for termination by either party giving not less than six months' notice in writing.

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

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

Disclosure on Remuneration

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

Corporate **Governance Report**

The following shows the level and mix of each director's remuneration paid or payable for the financial year ended 31 December 2013:

Remuneration bands	Base salary(1) %	Variable or performance-related bonus %	Directors' fees(2) %	Other benefits %	Total %
Directors					
Above S$250,000 and up to S$500,000					
Niu Ji Xing	100	-	-	-	100
Wang De You	100	-	-	-	100
Up to S$250,000					
Gao Zhong Fa	100	-	-	-	100
Kong Xiang Chao	-	-	100	-	100
Teoh Teik Kee	-	-	100	-	100
Ong Wei Jin	-	-	100	-	100
Key Management Personnel					
Up to S$250,000					
Zhang Ke	81.1	18.9	-	-	100
Li Na	81.1	18.9	-	-	100
Niu Ji Chao	81.1	18.9	-	-	100
Mao De Qing	81.1	18.9	-	-	100
Koh Pee Keat	92.6	7.4	-	-	100

Notes:-

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

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

The aggregate remuneration paid to the top five key management personnel of the Group in FY2013 amounted to S$1,193,760.

The Board is of the view that full disclosure of the specific remuneration of each individual director and key management personnel is not in the best interests of the Company, taking into account the sensitive nature of the subject, the competitive business environment the Group operates in and the potential negative impact such disclosure will have on the Group.

No employee who is an immediate family member of a director or the CEO was paid more than S$50,000 during FY2013.

ACCOUNTABILITY AND AUDIT

Accountability

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

The Board understands its accountability to the shareholders on the Group's performance, financial position and prospects. The objectives of the presentation of the annual financial statements and quarterly announcements to its shareholders are to provide the shareholders with a balanced and understandable analysis and explanation of the Group's financial performance and position, and prospects. In line with the rules of the SGX-ST Listing Manual, the Board provides a negative assurance statement to the shareholders in respect of the interim financial statements.

The Management understands its role in providing all members of the Board with management accounts and such explanation and information on a monthly basis and as the Board may require from time to time to enable the Board to make a balanced and informed assessment of the Group's performance, financial position and prospects.

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

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

The Group has implemented a system of internal controls designed to provide reasonable but not absolute assurance that assets are safeguarded, proper accounting records are maintained, operational controls are adequate and business risks are suitably managed. The Board oversees the Management in the design, implementation and monitoring of the risk management and internal control systems, and reviews the adequacy and effectiveness of such systems at least annually.

The external and internal auditors conduct annual reviews of the effectiveness of the Group's key internal controls, including financial, operational and compliance controls, and risk management. Any material non-compliance or lapses in internal controls, together with recommendations for improvement, are reported to the AC and the Board. The timely and proper implementation of all required corrective, preventive or improvement measures are closely monitored.

The Board has received assurance from the CEO and the Group Senior Finance Manager (a) that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances, and (b) regarding the effectiveness of the Company's risk management and internal control systems.

Based on the various internal controls put in place by the Group, the work performed and reports submitted by the external and internal auditors of the Group and the reviews carried out by the Board and the AC, the Board, with the concurrence of the AC, is of the opinion that the internal controls of the Group, addressing financial, operational and compliance risks, were adequate as at 31 December 2013.

Corporate **Governance Report**

Audit Committee

*Principle 12: The Board should establish an Audit Committee ("**AC**") with written terms of reference which clearly set out its authority and duties.*

The AC comprises the following members:

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

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

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

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

- reviewing the audit plans of the external auditors and internal auditors, including the results of the external and internal auditors' review and evaluation of the Group's system of internal controls;
- reviewing the annual consolidated financial statements and the external auditors' report on those financial statements, and discussing any significant adjustments, major risk areas, changes in accounting policies, compliance with relevant financial reporting standards, concerns and issues arising from their audits including any matters which the auditors may wish to discuss in the absence of Management, where necessary, before submission to the Board for approval;
- reviewing the periodic consolidated financial statements comprising the profit and loss statements and the balance sheets and such other information required by the SGX-ST Listing Manual, before submission to the Board for approval;
- reviewing and discussing with the external and internal auditors any suspected fraud, irregularity or infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position and the Management's response;
- reviewing the co-operation given by the Management to the external auditors;
- reviewing the independence of the external auditors annually;
- making recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;
- ensuring that the internal audit function is adequately resourced and has appropriate standing within the Group, and reviewing the adequacy and effectiveness of the internal audit function at least annually;
- reviewing and approving interested person transactions in accordance with the requirements of the SGX-ST Listing Manual;
- reviewing and reporting to the Board at least annually the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls, and risk management; and
- reviewing the procedures by which employees of the Group and any other persons may, in confidence, report to the Chairman of the AC, possible improprieties in matters of financial reporting or other matters and ensuring that there are arrangements in place for such concerns to be raised and independently investigated, and for appropriate follow-up action to be taken.

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

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

The external auditors update the AC on any changes in accounting standards impacting the financial statements of the Group before an audit commences.

For FY2013, the fees paid by the Company to the external auditors for audit services and non-audit services amounted to RMB 989,883 and RMB 29,970, respectively. The AC has reviewed all non-audit services provided by the external auditors and is of the opinion that these non-audit services would not affect the independence and objectivity of the external auditors. The AC has recommended to the Board the re-appointment of Mazars LLP Singapore as the external auditors of the Group at the forthcoming AGM.

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

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

Internal Audit

Principle 13: The company should establish an effective internal audit function that is adequately resourced and 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 Group's assets. An in-house internal audit team, comprising persons with the relevant qualifications and experience, has been formed to perform the internal audit function. The internal audit team reports primarily to the AC Chairman. The internal auditors plan its internal audit schedules in consultation with, but independent of, the Management. The internal audit plan is submitted to the AC for approval prior to the commencement of the internal audit. The AC will review the activities of the internal auditors, including overseeing and monitoring of the implementation of improvements required on internal control weaknesses identified.

The AC is satisfied with the adequacy and effectiveness of the Company's internal audit function.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

The Company strives for timeliness and consistency in its disclosures to shareholders. It is the Company's policy to keep all shareholders informed of developments or changes that will have a material impact on the Company's share price, through announcements via SGXNET and on the Company's website. Such announcements are communicated on an immediate basis, or as soon as possible where immediate disclosure is not practicable.

Corporate **Governance Report**

Shareholders are informed of general meetings through notices published in the newspapers, through reports or circulars sent to all shareholders and via the Company's website. The Company encourages shareholders' participation during the general meetings. Resolutions are passed through a process of voting and shareholders are entitled to vote in accordance with established voting rules and procedures.

Communication with Shareholders

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

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

The Company does not have a formal dividend policy. The form, frequency and amount of dividends will depend on the Group's earnings, financial position, results of operations, capital needs, plans for expansion, and other factors as the Board may deem appropriate.

Conduct of Shareholder Meetings

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

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

The Board notes that there should be separate resolutions at general meetings on each substantially separate issue and supports the Code's principle as regards "bundling" of resolutions. Given the attendance level at the Company's general meetings, the Board is of the view that it is not necessary nor cost-effective to put all resolutions to vote by poll and announce the detailed results.

RISK MANAGEMENT

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

DEALING IN SECURITIES

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

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

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

INTERESTED PERSON TRANSACTIONS

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

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

In addition, any interested person transaction of value equal to or more than 3% of the Group's latest audited net tangible assets will be approved by the AC prior to entry into such transaction. In the event that a member of the AC is interested in any interested person transaction, he will abstain from reviewing that particular transaction.

The Board will ensure that all disclosure, approval and other requirements on interested person transactions, including those required by prevailing legislation, the SGX-ST Listing Manual as laid down in Chapter 9, and accounting standards are complied with.

The aggregate values of the interested person transactions between the Company or its subsidiaries and any of its interested persons during FY2013, are as follows:

Name of interested person	Aggregate value of all transactions during FY2013 (excluding transactions less than $100,000 and transactions conducted under Shareholders' Mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under Shareholders Mandate pursuant to Rule 920 (excluding transactions less than $100,000)
	RMB'000	**RMB'000**
Rental expenses paid to Shandong Luzhou Food Group Co., Ltd	3,100	-
Rental expenses paid to Shaanxi Xingping Luzhou Sugar Products Co., Ltd	2,100	-

Material Contracts and Loans

Pursuant to Rule 1207(8) of the SGX-ST Listing Manual, the Company confirms that except as disclosed in the Report of Directors and Financial Statements and under "Interested Person Transactions" above, there were no other material contracts and loans of the Company and its subsidiaries involving the interests of the CEO or any director or controlling shareholder, either still subsisting at the end of FY2013 or if not then subsisting, which were entered into since the end of FY2012.

FINANCIAL CONTENTS

35 Report of the Directors

38 Statement by Directors

39 Independent Auditors' Report

40 Consolidated Statement of Profit or Loss and other Comprehensive Income

41 Statements of Financial Position

42 Statements of Changes in Equity

43 Consolidated Statement of Cash Flows

44 Notes to the Financial Statements

86 Statistics of Shareholdings

88 Notice of Annual General Meeting

Proxy Form

Report of the **Directors**

The directors of the Company present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2013 and statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2013.

1. Directors

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

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

2. Arrangement to enable directors to acquire shares and debentures

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

3. Directors' Interests in shares or debentures

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), the directors of the Company holding office at the end of the financial year in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

	Direct interest		Deemed interest	
Name of director	**At beginning of the year**	**At end of the year**	**At beginning of the year**	**At end of the year**
<u>LUZHOU BIO-CHEM TECHNOLOGY LIMITED</u> **(No. or ordinary shares)**				
Niu Ji Xing	3,900,000 [2]	3,900,000 [2]	157,950,000 [1]	157,950,000 [1]
Gao Zhong Fa [3]	15,200,000	15,200,000	-	-
Wang De You [4]	10,100,000	10,100,000	-	-
Teoh Teik Kee	125,000	125,000	-	-
Ong Wei Jin	125,000	125,000	-	-

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

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

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

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

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

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

There were no changes in the above mentioned interests in the Company between the end of the financial year and at 21 January 2014.

Report of the **Directors**

4. Directors' contractual benefits

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

5. Share options

There were no options granted by the Company or its subsidiaries during the financial year.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiaries.

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

6. Audit Committee

The Audit Committee of the Company comprises three independent directors and at the date of this report are:

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

The Audit Committee has convened four meetings during the year with key management and the internal and external auditors of the Company.

The Audit Committee carries out its functions in accordance with Section 201B(5) of the Act.

In performing those functions, the Audit Committee review:

(i) the audit plan and results of the external audit, including the evaluation of internal accounting controls and its cost effectiveness, and the independence and objectivity of the external auditors, including the review of the extent of non-audit services provided by the external auditors to the Group;

(ii) the audit plans of the internal auditors of the Group and their evaluation of the adequacy of the Group's system of internal accounting controls;

(iii) Group's quarterly and annual financial statements and the external auditors' report on the annual financial statements of the Group and of the Company before their submission to the board of directors;

(iv) the quarterly, half-yearly and annual announcements as well as the related press releases on the results of the Group and financial position of the Group and of the Company;

(v) the adequacy of the Group's risk management processes;

(vi) the Group's compliance with legal requirements and regulations, including the related compliance policies and programmes and reports received from regulators, if any;

(vii) interested person transactions in accordance with SGX listing rules;

(viii) Nomination of external auditors and approval of their compensation; and

(ix) Submission of report of actions and minutes of the audit committee to the board of directors with any recommendations as the audit committee deems appropriate.

Report of the **Directors**

6. Audit Committee (Cont'd)

The Audit Committee has recommended to the directors the nomination of Mazars LLP for re-appointment as external auditors of the Group at the forthcoming Annual General Meeting of the Company.

The Audit Committee has full access to and has the co-operation of the management and has been given the resources required for it to discharge its functions properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit Committee.

7. Auditors

Mazars LLP, have expressed their willingness to accept re-appointment as auditors.

On behalf of the directors

Niu Ji Xing Director	**Wang De You** Director

Singapore
24 March 2014

Statement by **Directors**

In the opinion of the directors:

(a) the financial statements of the Group and the statement of financial position and statement of changes in equity of the Company 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 2013, and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended; 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.

On behalf of the directors

Niu Ji Xing
Director

Wang De You
Director

Singapore
24 March 2014

Independent
Auditors' Report

TO THE MEMBERS OF LUZHOU BIO-CHEM TECHNOLOGY LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Luzhou Bio-Chem Technology Limited (the "Company") and its subsidiaries (the "Group") which comprise the statements of the financial position of the Group and the Company as at 31 December 2013, and the statement of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 40 to 85.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company, have been properly kept in accordance with the provisions of the Act.

MAZARS LLP
Public Accountants and
Chartered Accountants

Singapore
24 March 2014

Consolidated Statement of **Profit or Loss and other Comprehensive Income**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	Group 2013 RMB'000	Group 2012 RMB'000
Revenue	4	**3,009,384**	3,399,786
Cost of sales		**(2,813,673)**	(3,079,372)
Gross profit		**195,711**	320,414
Other item of income			
Other operating income	5	**33,564**	33,936
Other items of expenses			
Selling and distribution expenses		**(135,021)**	(147,819)
Administrative expenses		**(137,675)**	(114,666)
Other operating expenses		**(14,825)**	(15,562)
Finance expenses	6	**(52,341)**	(51,857)
(Loss)/Profit before taxation	7	**(110,587)**	24,446
Income tax expense	9	**(3,170)**	(9,890)
(Loss)/Profit for the year, representing total comprehensive income for the year		**(113,757)**	14,556
Attributable to:			
Owners of the company		**(113,757)**	11,700
Non-controlling interests		**-**	2,856
(Loss)/Profit for the year and total comprehensive income for the year		**(113,757)**	14,556
(Loss)/Earnings per share attributable to the owners of the Company (RMB cents per share):			
Basic and diluted	10	**(28.7)**	3.0

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

Statements of **Financial Position**

AS AT 31 DECEMBER 2013

		Group		Company	
	Note	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Non-current assets					
Property, plant and equipment	11(i)	**907,214**	984,403	**68**	145
Land use rights	11(ii)	**48,256**	49,615	**-**	-
Investments in subsidiaries	12	**-**	-	**372,654**	372,654
		955,470	1,034,018	**372,722**	372,799
Current assets					
Inventories	13	**273,170**	303,302	**-**	-
Trade receivables	14	**191,700**	246,361	**-**	-
Other receivables, deposits and prepayments	15	**84,333**	75,662	**807**	808
Cash and cash equivalents	16	**66,695**	119,520	**3,867**	4,452
		615,898	744,845	**4,674**	5,260
Total assets		**1,571,368**	1,778,863	**377,396**	378,059
Equity attributable to owners of the Company					
Share capital	17	**282,820**	282,820	**282,820**	282,820
Statutory reserve	18	**90,893**	87,930	**-**	-
Accumulated profits		**38,289**	164,752	**78,146**	83,306
Total equity		**412,002**	535,502	**360,966**	366,126
Non-current liabilities					
Amount owing to a related party	19	**-**	2,520	**-**	-
Interest-bearing liabilities	20	**562,350**	512,350	**-**	-
Deferred income	21	**43,679**	51,043	**-**	-
Deferred taxation	22	**589**	589	**-**	-
		606,618	566,502	**-**	-
Current liabilities					
Trade payables	23	**215,067**	276,611	**-**	-
Other payables	24	**109,021**	152,779	**754**	9,614
Deferred income	21	**7,364**	7,364	**-**	-
Amount owing to a related party	19	**2,520**	37,792	**4,374**	2,319
Interest-free loan from a director	25	**11,302**	-	**11,302**	-
Interest-bearing liabilities	20	**207,000**	200,000	**-**	-
Income tax payable		**474**	2,313	**-**	-
		552,748	676,859	**16,430**	11,933
Total liabilities		**1,159,366**	1,243,361	**16,430**	11,933
Total equity and liabilities		**1,571,368**	1,778,863	**377,396**	378,059

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

Statements of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Share capital	Statutory reserve	Accumulated profits	Total attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group						
At 1 January 2012	282,820	81,746	160,100	524,666	29,280	553,946
Acquisition of non-controlling interests			(864)	(864)	(32,136)	(33,000)
Total comprehensive income for the year	-	-	11,700	11,700	2,856	14,556
Transfer to statutory reserves	-	6,184	(6,184)	-	-	-
At 31 December 2012	282,820	87,930	164,752	535,502	-	535,502
Total comprehensive loss for the year	-	-	(113,757)	(113,757)	-	(113,757)
Dividend paid (Note 26)	-	-	(9,743)	(9,743)	-	(9,743)
Transfer to statutory reserves	-	2,963	(2,963)	-	-	-
At 31 December 2013	282,820	90,893	38,289	412,002	-	412,002

	Share capital	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000
Company			
At 1 January 2012	282,820	102,774	385,594
Total comprehensive loss for the year	-	(19,468)	(19,468)
At 31 December 2012	282,820	83,306	366,126
Total comprehensive income for the year	-	4,583	4,583
Dividend paid (Note 26)	-	(9,743)	(9,743)
At 31 December 2013	282,820	78,146	360,966

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

Consolidated Statement of **Cash Flows**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013 RMB'000	2012 RMB'000
Operating activities			
(Loss)/Profit before taxation		**(110,587)**	24,446
Adjustments for:			
Depreciation of property, plant and equipment	11(i)	**105,501**	88,038
Amortisation of land use rights	11(ii)	**1,359**	624
Amortisation of government grant	21	**(7,364)**	(2,235)
Gain on disposal of property, plant and equipment		**(920)**	(3,700)
Interest expense	6	**52,341**	51,857
Interest income	5	**(691)**	(408)
Write-down/(reversal of write-down) of inventories	13	**4,248**	(122)
Allowance for doubtful trade receivables	14	**-**	349
Reversal of allowances for doubtful trade receivables	14	**(262)**	(804)
Operating cash flows before movements in working capital		**43,625**	158,045
Movements in working capital			
Inventories		**25,884**	25,374
Trade receivables		**54,923**	(47,690)
Other receivables, deposits and prepayments		**(9,171)**	61,305
Trade payables		**(61,544)**	(42,619)
Other payables		**(47,758)**	(96,915)
Amount owing to a related party		**(35,272)**	1,875
Cash (used in)/generated from operations		**(29,313)**	59,375
Income taxes paid		**(4,509)**	(12,180)
Net cash (used in)/generated from operating activities		**(33,822)**	47,195
Investing activities			
Purchase of property, plant and equipment	11(i)	**(49,216)**	(190,829)
Purchase of land use rights	11(ii)	**-**	(23,601)
Proceeds from disposal of property, plant and equipment		**21,824**	94,120
Interest income received		**691**	408
Proceeds from government grant		**10,000**	35,067
Increase in pledged cash deposits		**(450)**	-
Net cash used in investing activities		**(17,151)**	(84,835)
Financing activities			
Partial payment for acquisition of non-controlling interests		**(6,000)**	(27,000)
Payment of dividend		**(9,743)**	-
Interest expense paid		**(52,341)**	(51,857)
Amount owing to a related party		**(2,520)**	(2,520)
Proceeds from interest-free loans from a director		**11,302**	-
Proceeds from interest-bearing loans and borrowings		**869,350**	785,000
Repayment of interest-bearing loans and borrowings		**(812,350)**	(648,650)
Repayment of finance lease liabilities		**-**	(954)
Net cash (used in)/generated from financing activities		**(2,302)**	54,019
Net (decrease)/increase in cash and cash equivalents		**(53,275)**	16,379
Cash and cash equivalents at beginning of financial year		**119,520**	103,141
Cash and cash equivalents at end of financial year	16	**66,245**	119,520

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

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

1. General

Luzhou Bio-chem Technology Limited (the "Company") (Registration Number 200412523N) is incorporated in Singapore and has its registered office at 18 Cross Street, #07-11 China Square Central, Singapore 048423. The Company was admitted to the Mainboard of the Singapore Exchange Securities Trading Limited on 24 February 2006. The Company's principal place of business is at 8 Burn Road, #07-09 Trivex, Singapore 369977.

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

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

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the year ended 31 December 2013 were authorised for issue by the Board of Directors on 24 March 2014.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Group and statement of financial position and statement of changes in equity of the Company have been drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards ("FRS") including related Interpretations of FRS ("INT FRS") and are prepared on the historical cost basis, except as disclosed in the accounting policies below.

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Renminbi ("RMB") which is also the functional currency of the Company, and all values presented are rounded to the nearest thousand ("RMB'000"), unless otherwise indicated.

In the current financial year, the Group has adopted all the new and revised FRS and INT FRS that are relevant to its operations and effective for the current financial year. The adoption of these new/revised FRS and INT FRS did not result in changes to the Group's accounting policies and has no material effect on the amounts reported for the current or prior years.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.1 Basis of preparation (Cont'd)

FRS and INT FRS issued but not yet effective

At the date of authorisation of these financial statements, the following FRS and INT FRS that are relevant to the Group were issued but not yet effective:

		Effective date (annual periods beginning on or after)
FRS 27	Separate financial statements	1 January 2014
FRS 28	Investments in associates and joint ventures	1 January 2014
FRS 32	Amendments to FRS 32 – Offsetting of financial assets and financial liabilities	1 January 2014
FRS 36	Amendments to FRS 36: Recoverable amount disclosures for non-financial assets	1 January 2014
FRS 39	Amendments to FRS 39: Novation of derivatives and continuation of hedge accounting	1 January 2014
FRS 110	Consolidated financial statements	1 January 2014
FRS 110, FRS 111, FRS 112, FRS 27 & FRS 28	Amendments to FRS 110, FRS 111, FRS 112, FRS 27 (2011) and FRS 28 (2011): Mandatory effective date	1 January 2014
FRS 110, FRS 111 & FRS 112	Amendments to FRS 110, FRS 111 and FRS 112: Transition guidance	1 January 2014
FRS 111	Joint arrangements	1 January 2014
FRS 110, FRS 112 and FRS 27	Amendments to FRS 110, FRS 112 and FRS 27: Investment entities	1 January 2014
FRS 112	Disclosure of interests in other entities	1 January 2014
INT FRS 121	Levies	1 January 2014

Consequential amendments were also made to various standards as a result of these new/revised standards.

The management anticipates that the adoption of the above FRS and INT FRS in future period will have no material impact of the financial statements, and in particular, to the financial position and financial performance, of the Group and the Company in the period of their initial application.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.2 Basis of consolidation

The financial statements of the Group comprise the financial statements of the Company and its subsidiaries. Subsidiaries are entities (including special purposes entities) over which the Group has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

Intra-group balances, transactions, income and expenses are eliminated on consolidation.

The financial statements of the subsidiaries used in the preparation of the financial statements are prepared for the same reporting date as that of the Company. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Non-controlling interests are identified separately from the Group's equity therein. On an acquisition-by-acquisition basis, non-controlling interests may be initially measured either at fair value or at their proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Losses in the subsidiary are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the amount by which the non-controlling interests are adjusted to reflect the changes in the relative interests in the subsidiary and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Investments in subsidiaries are carried at cost less any impairment loss that has been recognised in profit or loss.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.3 Business combinations

Business combinations from 1 January 2010

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 *Business Combinations* ("FRS 103") are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with FRS 105 *Non-Current Assets Held for Sale and Discontinued Operations* ("FRS 105"), which are recognised and measured at the lower of cost and fair value less costs to sell.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 *Income Taxes* and FRS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with FRS 102 *Share-based Payment*; and

- assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Goodwill arising on acquisition is recognised as an asset at the acquisition date and initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer previously held equity interest (if any) in the entity over net acquisition-date fair value amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.3 Business combinations

Business combinations before 1 January 2010

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

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

Business combinations achieved in stages were accounted for as step acquisitions. Adjustments to those fair values relating to previously held interests were treated as a revaluation and recognised in equity.

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

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was probable and a reliable estimate was determinable. Subsequent measurements to the contingent consideration affected goodwill.

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

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

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

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

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.4 Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(iii) Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

2.5 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction or development expenditures that are financed by general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.6 Employee benefits

The Group participates in the national pension schemes as defined by the laws of the People's Republic of China (PRC). Subsidiaries incorporated in the PRC are required to provide staff pension benefits to their employees under existing PRC legislation. These subsidiaries are required to contribute a certain percentage of their payroll costs to the pension scheme to fund the benefits. The pension funds are managed by government agencies, which are responsible for paying pensions to the retired employees. Contributions under the pension scheme are charged to the profit or loss as they become payable in accordance with the rules of the pension scheme.

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

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.7 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and subsidiaries operate by the end of the financial year.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each financial year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the financial year and based on the tax consequence that will follow from the manner in which the Group expects, at the end of the financial year, to recover or settle the carrying amounts of its assets and liabilities. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Revenue, expenses and assets are recognised net of the amount of sales tax except:

- when the sales tax that is incurred on purchases is not recoverable from the tax authorities, in which case the sales tax is recognised as part of cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.8 Foreign currency transactions and translation

Foreign currency transactions are translated into the individual entities' respective functional currencies at the exchange rates prevailing on the date of the transaction. At the end of each financial year, monetary items denominated in foreign currencies are retranslated at the rates prevailing as of the end of the financial year. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

2.9 Property, plant and equipment

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

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

Assets under construction represent property, plant and equipment under construction or being installed and are stated at cost less any impairment losses, and are not depreciated. Assets under construction are reclassified to the appropriate category of property, plant and equipment when completed and ready for intended use. When events or changes in circumstances indicate that the carrying value may not be recoverable, the carrying amount of the asset is written down to its recoverable amount.

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

	Estimated useful lives
Property	20 years
Machinery and tools	3 - 12 years
Office equipment and furniture	5 years
Motor vehicles	6 years
Renovation	3 - 5 years

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

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

Notes to the
Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.9 Property, plant and equipment (Cont'd)

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

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

2.10 Inventories

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

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

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

2.11 Intangible assets

Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over the lease term of 50 years.

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised, if, any only if, all the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at the end of each financial year. The effects of any revision are recognised in profit or loss when the changes arise.

Notes to the
Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.12 Impairment of tangible and intangible assets

The Group reviews the carrying amounts of its tangible and intangible assets as at each reporting date to assess for any indication of 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.

Irrespective of whether there is any indication of impairment, the Group also tests its intangible assets with indefinite useful lives and intangible assets not yet available for use for impairment annually by comparing their respective carrying amounts with their corresponding recoverable amounts.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its 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.

An impairment loss for the amount by which the asset's carrying amount exceeds the recoverable amount is recognised immediately in profit or loss, 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 profit or loss, 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.

2.13 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial instrument. Income and expense are recognised on an effective interest basis for debt instruments other than those financial instruments at fair value through profit or loss.

Financial assets

All financial assets are recognised on a trade date - the date on which the Group commits to purchase or sell the asset. They are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose for which these financial assets were acquired and is determined at the time of initial recognition.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.13 Financial instruments (Cont'd)

Financial assets (Cont'd)

Loans and receivables

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents.

Such loans and receivables are non-derivatives with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost, using the effective interest method less impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each financial year. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amounts of all financial assets are reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds receivables.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities are classified as at fair value through profit or loss if the financial liability is either held for trading or it is designated as such upon initial recognition.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.13 Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Other financial liabilities

Trade and other payables, amount owing to a related party and interest free loan from a director

Trade and other payables, amount owing to a related party and interest free loan from a director are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, where applicable, using the effective interest method, with interest expense recognised on an effective yield basis.

Borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Groups accounting policy for borrowing costs (see Note 2.5).

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

2.15 Leases

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased assets to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is recognised as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to the acquisition, construction of production of qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see Note 2.5).

Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the financial year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss as they arise.

2.17 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingencies are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair value can be reliably determined.

2.18 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalment.

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

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

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

2.19 Segment reporting

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

2.20 Related parties

A related party is defined as follows:

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

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

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

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

Key management personnel

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

Notes to the
Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

3. Critical accounting judgements and key sources of estimation uncertainty

The Group made judgements, estimates and assumptions about the carrying amounts of assets and liabilities that were not readily apparent from other sources in the application of the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors that are considered to be reasonable under the circumstances. Actual results may differ from the estimates.

3.1 Critical judgements made in applying the Group's accounting policies

Impairment of tangible asset

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

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currency of the respective entity in the Group, judgement is required to determine the currency that mainly influences sales prices of goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on the local management's assessment of the economic environment in which the entities operate and the respective entities' process of determining sales prices.

3.2 Key sources of estimation uncertainty

Allowance for trade and other receivables

The provision policy for doubtful debts of the Group is based on the ageing analysis and management's continuous evaluation of the recoverability of the outstanding receivables. In assessing the ultimate realisation of these receivables, management considers, among other factors, the creditworthiness 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 allowances may be required. The carrying amounts of the Group's and the Company's trade and other receivables as at 31 December 2013 were RMB 260,271,000 (2012: RMB 302,343,000) and RMB 807,000 (2012: RMB 808,000) respectively.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the period that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual value reflects management's estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges. The carrying amounts of the Group's and the Company's property, plant and equipment as at 31 December 2013 were RMB 907,214,000 (2012: RMB 984,403,000) and RMB 68,000 (2012: RMB 145,000) respectively.

Notes to the
Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

3. Critical accounting judgements and key sources of estimation uncertainty (Cont'd)

3.2 Key sources of estimation uncertainty (Cont'd)

Impairment of investments in subsidiaries

At the end of each financial year, an assessment is made on whether there is objective evidence that the Company's investments in subsidiaries are impaired. Once such investments have indication of impairment, the management will assess based on the estimation of the value-in-use of the cash-generating unit ("CGU") by forecasting the expected future cash flows for a period up to 5 years, using a suitable discount rate in order to calculate the present value of those cash flows. No impairment was recognised during the financial year. The carrying amount of the Company's investment in subsidiaries as at 31 December 2013 was RMB 372,654,000 (2012: RMB 372,654,000).

Inventory valuation method

Inventory is valued at the lower of cost and net realisable value. Management reviews the Group's inventory levels in order to identify slow-moving and obsolete merchandise and identifies items of inventory which have a market price, being the merchandise's selling price quoted from the market of similar items, that is lower than its carrying amount. Management then estimates the amount of inventory loss as an allowance on inventory. Changes in demand levels, technological developments and pricing competition could affect the salability and values of the inventory which could then consequentially impact the Group's results, cash flows and financial position. The carrying amount of the Group's inventories was RMB 273,170,000 (2012: RMB 303,302,000).

Provision for income taxes

The Group has exposure to income taxes in different jurisdictions of which a portion of these taxes arose from certain transactions and computations for which ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities of expected tax issues based on their best estimates of the likely taxes due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax positions in the period in which such determination is made. The carrying amounts of the Group's and Company's current tax payable as at 31 December 2013 were RMB 474,000 (2012: RMB 2,313,000) and nil (2012: nil) respectively.

4. Revenue

	Group	
	2013 **RMB'000**	**2012** **RMB'000**
Sale of goods	**3,009,384**	3,399,786

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

5. Other operating income

	Group	
	2013 RMB'000	**2012 RMB'000**
Gain on sale of consumables and waste materials	**10,638**	15,390
Gain on disposal of property, plant and equipment	**920**	3,700
Government grant and subsidies	**7,461**	3,822
Amortisation of government grant (Note 21)	**7,364**	2,235
Interest income from banks	**691**	408
Income from penalties imposed on suppliers	**1,101**	558
Legal claim (Note 33)	**-**	2,654
Others	**5,389**	5,169
	33,564	33,936

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

6. Finance expenses

	Group	
	2013 RMB'000	**2012 RMB'000**
Interest expenses on trade financing	**300**	597
Interest expense on bank loans	**52,039**	51,731
Discounted bills receivable borne by suppliers	-	(473)
Interest expense – others	**2**	2
	52,341	51,857

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

7. Profit before taxation

	Group	
	2013 RMB'000	2012 RMB'000
Profit before taxation is arrived at after charging:		
Audit fees to auditors of the Company	**990**	1,008
Non-audit fees paid to auditors of the Company	**15**	15
Total fees paid to auditors of the Company	**1,005**	1,023
Cost of inventories included in cost of sales	**2,813,673**	3,079,372
Directors' remuneration (Note 8)	**4,474**	5,939
Directors' fee (Note 8)	**793**	805
Foreign currencies exchange loss, net	**472**	663
Operating lease expenses	**7,561**	6,615
Research and development expenses	**2,004**	2,339
Staff costs (excluding directors' remuneration) (Note 8)	**161,356**	151,954
Utilities charges	**39,107**	38,833
Transportation costs	**85,045**	99,374

Depreciation of property, plant and equipment totalling RMB 65,108,000 (2012: RMB 64,186,000) is recognised as an expense in the cost of sales.

8. Staff costs

	Group	
	2013 RMB'000	2012 RMB'000
Salaries and bonuses	**131,410**	125,375
Contribution to defined contribution plan	**23,020**	18,450
Other staff related costs	**6,926**	8,129
	161,356	151,954

Staff costs totalling RMB 93,110,000 (2012: RMB 88,655,000) were recognised as an expense in the cost of sales.

Compensation of key management personnel

	Group	
	2013 RMB'000	2012 RMB'000
Directors of the Company		
Short-term employee benefits		
- Salaries	**4,447**	5,914
- Others	**27**	25
- Directors' fee	**793**	805
	5,267	6,744

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

9. Income tax expense

	Group	
	2013 RMB'000	**2012 RMB'000**
Current tax		
Current year	**3,170**	9,890

The tax expense on the results for the financial year differs from the amount that would arise using the PRC income tax rate applicable to the profit before taxation of the main operating legal subsidiaries in PRC due to the following factors:

	Group	
	2013 RMB'000	**2012 RMB'000**
Profit before taxation	**(110,587)**	24,446
Tax at the applicable rate of 25%	**(27,647)**	6,112
Income exempted from tax	**(489)**	(465)
Effect of different tax rate of Singapore company	**(367)**	-
Tax incentives	**-**	(5,196)
Non-deductible expenses	**7,261**	12,692
Deferred tax assets arising in current year not recognised	**26,613**	10,602
Utilisation of deferred tax assets not recognised	**(2,201)**	(13,855)
Total tax expense	**3,170**	9,890

The prevailing tax rate of the subsidiaries residing in the PRC is 25% (2012: 25%). Certain subsidiaries has enjoyed low income tax rate of 15% on the income tax payable due to special tax incentives given to high technology enterprises (the "Tax credit"). The validity period of Tax credit is three years, and is available for application upon expiry.

Deferred tax assets not recognised

	Group	
	2013 RMB'000	**2012 RMB'000**
Unutilised tax losses	**34,998**	4,838
Unutilised capital allowances	**-**	5,321
Others	**1,438**	1,865
	36,436	12,024

At the reporting date, certain subsidiaries in the Group have unutilised tax losses amounted to RMB139,992,000 (2012: RMB 19,352,000) and there is no unutilised capital allowances (2012: RMB 21,284,000) which can be carried forward and used to offset against future taxable income, subject to meeting certain statutory requirements by those companies with unrecognised tax losses and unutilised capital allowances in their respective countries of incorporation. These tax losses and unutilised capital allowances will expire 5 years from the year it arises. Deferred tax assets are not recognised due to uncertainty of its recoverability.

Notes to the
Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

10. (Loss)/Earnings per share

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

	Group	
	2013	**2012**
Basic and diluted (loss)/earnings per share is based on:		
- (Loss)/Profit for the year attributable to ordinary shareholders (RMB '000)	**(113,757)**	11,700
Weighted average number of ordinary shares (in thousands)	**396,000**	396,000
(Loss)/Earnings per share (RMB cents)	**(28.7)**	3.0

11(i). Property, plant and equipment

	Property	Machinery and tools	Office equipment and furniture	Motor vehicles	Renovation	Assets under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group							
Cost							
At 1 January 2012	256,598	891,765	45,298	14,999	678	182,425	1,391,763
Additions	7,192	97,604	1,220	-	-	84,813	190,829
Disposals	-	(105,770)	(5,001)	(1,373)	(301)	(2,710)	(115,155)
Reclassifications	76,437	174,863	960	787	-	(253,047)	-
At 31 December 2012	340,227	1,058,462	42,477	14,413	377	11,481	1,467,437
At 1 January 2013	340,227	1,058,462	42,477	14,413	377	11,481	1,467,437
Additions	6,155	24,177	1,704	178	-	17,002	49,216
Disposals	(147)	(17,398)	(56)	(402)	(152)	(8,702)	(26,857)
Reclassifications	1,551	6,423	28	-	-	(8,002)	-
At 31 December 2013	347,786	1,071,664	44,153	14,189	225	11,779	1,489,796

Notes to the
Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

11(i). Property, plant and equipment (Cont'd)

	Property	Machinery and tools	Office equipment and furniture	Motor vehicles	Renovation	Assets under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group							
Accumulated depreciation and impairment loss							
At 1 January 2012	45,888	328,196	33,502	11,687	458	-	419,731
Depreciation for the year	13,434	70,108	3,158	1,263	75	-	88,038
Disposals	(111)	(18,499)	(4,524)	(1,301)	(300)	-	(24,735)
At 31 December 2012	59,211	379,805	32,136	11,649	233	-	483,034
At 1 January 2013	59,211	379,805	32,136	11,649	233	-	483,034
Depreciation for the year	16,420	84,953	3,176	876	76	-	105,501
Disposals	-	(5,352)	(37)	(412)	(152)	-	(5,953)
At 31 December 2013	75,631	459,406	35,275	12,113	157	-	582,582
Carrying amount							
At 31 December 2013	272,155	612,258	8,878	2,076	68	11,779	907,214
At 31 December 2012	281,016	678,657	10,341	2,764	144	11,481	984,403

Notes to the
Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

11(i). Property, plant and equipment (Cont'd)

	Office equipment and furniture	Renovation	Total
	RMB'000	RMB'000	RMB'000
Company			
Cost			
At 1 January 2012	24	525	549
Disposals	-	(301)	(301)
At 31 December 2012 and 31 December 2013	24	224	248
Accumulated depreciation			
At 1 January 2012	20	306	326
Depreciation for the year	3	75	78
Disposals	-	(301)	(301)
At 31 December 2012	23	80	103
Depreciation for the year	1	76	77
At 31 December 2013	24	156	180
Carrying amount			
At 31 December 2013	-	68	68
At 31 December 2012	1	144	145

During the year, the Group carried out a review of the recoverable amount of its manufacturing plant and equipment, having regard to its impairment indication. Based on the review, there is no impairment loss required to recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 6.55%. No such review was carried out in prior year, as there was no indication of impairment.

As at the reporting date, property, plant and equipment with carrying amount of RMB 441,158,000 (2012: RMB 383,915,000) have been pledged to secure the Group's interest-bearing loans and borrowings as disclosed in Note 20.

There is no property, plant and equipment held under finance leases at the reporting date.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

11(ii). Land use rights

	Group	
	2013 RMB'000	**2012 RMB'000**
Cost		
At 1 January	**52,928**	29,327
Additions	**-**	23,601
At 31 December	**52,928**	52,928
Accumulated amortisation		
At 1 January	**3,313**	2,689
Amortisation for the year	**1,359**	624
At 31 December	**4,672**	3,313
Carrying amount		
At 31 December	**48,256**	49,615
Amounts to be amortised		
Not later than one year	**1,359**	1,359
Later than one year but not later than five years	**5,942**	4,265
Later than five years	**40,955**	43,991
	48,256	49,615

(a) Land use rights represented leasehold interests in 5 plots of state-owned land located in the PRC where the Group's manufacturing facilities reside. The lease terms expire between years 2055 to 2061.

(b) At the reporting date, the carrying amount of land use rights of RMB 48,256,000 (2012: RMB 24,658,000) has been pledged to secure bank loans of the Group (Note 20).

12. Investments in subsidiaries

	Company	
	2013 RMB'000	**2012 RMB'000**
Unquoted equity shares, at cost	**372,654**	372,654

No impairment is required for both financial year 2013 and 2012 based on management's assessment which is based on value-in-use calculations. Cash flow projections used in these calculations were based on financial budgets approved by management covering a five-year period.

The key assumptions used for value-in-use calculations are as follows:

(i) The anticipated annual revenue growth included in cash flow projections is 1%; and
(ii) The pre-tax discount rate of 6.55% (2012: nil) which is also the prime lending rate of the People's Bank of China, had been used as the weighted average cost of capital ("WACC") of the subsidiaries.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external and internal sources (historical data).

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

12. Investments in subsidiaries (Cont'd)

Details of subsidiaries are as follows:

Name of company	Principal activities	Country of incorporation and place of business	Cost of investment held by the Company		Effective percentage of equity interest held by the Group	
			2013	**2012**	**2013**	**2012**
鲁洲生物科技(山东)有限公司 (Luzhou Bio-chem Technology (Shandong) Co., Ltd.) Note 2	Production and distribution of sweeteners, corn starch and by-products of corn starch	People's Republic of China	**US$25,300,000 (RMB189,341,000)**	US$36,300,000 (RMB271,664,000)	**100**	100
鲁洲生物科技(辽宁)有限公司 (Luzhou Bio-chem Technology (Liaoning) Co., Ltd.)	Production and distribution of sweeteners, corn starch and by-products of corn starch	People's Republic of China	**US$2,000,000 (RMB15,909,000)**	US$2,000,000 (RMB15,909,000)	**100**	100
鲁洲生物科技(陕西)有限公司 (Luzhou Bio-chem Technology (Shaanxi) Co., Ltd.)	Production and distribution of sweeteners, corn starch and by-products of corn starch	People's Republic of China	**US$7,000,000 (RMB46,381,000)**	US$7,000,000 (RMB46,381,000)	**100**	100
鲁洲生物科技(四川)有限公司# (Luzhou Bio-chem Technology (Sichuan) Co., Ltd.)	Production and distribution of sweeteners, corn starch and by-products of corn starch	People's Republic of China	**US$4,463,000 (RMB35,700,000)**	US$4,463,000 (RMB35,700,000)	**100**	100
鲁洲生物科技(河南)有限公司 (Luzhou Bio-chem Technology (Henan) Co., Ltd.) Note 3	Production and distribution of sweeteners, corn starch and by-products of corn starch	People's Republic of China	**US$11,000,000 (RMB82,323,000)**	-	**100**	-
山东泓洲化工机械有限公司 (Shandong Hongzhou Chemical Equipment Co., Ltd.)	Provision of engineering services and construction of industrial machinery and equipment	People's Republic of China	**US$375,000 (RMB3,000,000)**	US$375,000 (RMB3,000,000)	**100**	100
山东鲁洲氨基酸有限公司* (Shandong Luzhou Amino Acid Co., Ltd.)	Production and sale of amino acids	People's Republic of China	**-**	-	**100**	100
			RMB372,654,000	RMB372,654,000		

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

12. Investments in subsidiaries (Cont'd)

Note: 1. All the subsidiaries are audited by overseas member firms of Mazars for consolidation purposes.

2. The subsidiary has three branch offices: Beijing Branch Office, Yishui Branch Office and Animal Feed Branch Office, of which the Beijing Branch Office ceased operations from August 2010 and the closure was confirmed by the relevant authorities on 11 October 2011.

3. The Company has established a new wholly-owned subsidiary, Luzhou Bio-chem Technology (Henan) Co., Ltd. In 9 August 2013 through the separation of the Xiping Branch Office of Luzhou Bio-chem Technology (Shandong) Co., Ltd.

On 6 November 2012, the Company's wholly-owned subsidiary company, Luzhou Bio-Chem Technology (Shandong) Co., Ltd, (Luzhou Shandong) has acquired the remaining 37.5% equity interest in Luzhou Biochem Technology (Sichuan) Co., Ltd. (Luzhou Sichuan), a subsidiary in which the Company and Luzhou Shandong previously held 37.2% equity interest and 25.3% equity interest, respectively, from Sichuan Jin Tai Bio-chem Co., Ltd. for cash consideration of RMB30 million. Following the completion of this acquisition, Luzhou Sichuan has become a wholly-owned subsidiary of the Group, in which the Company holds 37.2% equity interest and Luzhou Shandong holds 62.8% equity interest.

* On 25 June 2012, the Company's wholly-owned subsidiary company, Luzhou Bio-Chem Technology (Shandong) Co., Ltd, acquired the remaining of 45% equity interest in Shandong Luzhou Amino Acid Co., Ltd ("Amino Acid") from its non-controlling interests for a cash consideration of RMB3 million. As a result of this acquisition, Amino Acid is now a wholly-owned subsidiary of the Group. The carrying value of the net assets of Amino Acid at 30 June 2012 was RMB660,893 and the carrying value of the additional interest acquired was RMB297,402.

13. Inventories

	Group	
	2013 RMB'000	**2012 RMB'000**
Raw materials	**157,381**	147,042
Work-in-progress	**13,595**	30,541
Finished goods	**99,873**	122,584
Packaging materials and consumables	**2,321**	3,135
	273,170	303,302

The cost of inventories recognised as an expense includes RMB4,248,000 (2012: reversal of write-down of inventories RMB122,000) in respect of write-downs of inventory to net realisable value.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

14. Trade receivables

	Group	
	2013 RMB'000	**2012 RMB'000**
Trade receivables	**167,913**	219,379
Bills receivables	**9,049**	17,084
Value-added tax recoverables	**18,298**	13,720
	195,260	250,183
Allowances for doubtful trade receivables	**(3,560)**	(3,822)
	191,700	246,361

Movement in allowances for doubtful trade receivables are as follow:

At 1 January	**(3,822)**	(4,277)
Allowance charged to profit or loss	**-**	(349)
Reversal of allowances	**262**	804
At 31 December	**(3,560)**	(3,822)

Allowance for doubtful trade receivables arose mainly from customers who have difficulty in settling the amount due. Reversal of allowances is due to amount either recovered during the financial year or has been reassessed as recoverable.

The currency profiles of the Group's trade receivables as at 31 December are as follows:

	Group	
	2013 RMB'000	**2012 RMB'000**
RMB	**180,328**	221,947
United States dollar	**11,372**	24,414
	191,700	246,361

Trade receivables are non-interest bearing and are generally on 30 days (2012: 30 days) credit term. The Group does not hold any collateral or credit enhancements over the trade receivables.

Bills receivables, which are non-interest bearing, are issued by banks with average maturity of 4 months (2012: 5 months) as at the financial year end. These bills receivables are transferable.

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

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

15. Other receivables, deposits and prepayments

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Other receivables	**16,493**	10,677	**56**	57
Government compensations	**31,491**	27,213	**-**	-
Prepayments	**15,762**	19,680	**-**	-
Advances paid to suppliers	**20,587**	18,092	**-**	-
Dividends receivable from subsidiaries	**-**	-	**751**	751
	84,333	75,662	**807**	808

Advances paid to suppliers are mainly for purchase of raw material for production purposes and utilities expenses.

The dividends receivable from subsidiaries are denominated in RMB, unsecured, interest-free and are repayable on demand.

The government compensations are in related to the remaining amount of the government grant for relocation of the plant of Luzhou Bio-Chem Technology (Liaoning) Co., Ltd by the local government.

The currency profiles of the Group's and the Company's other receivables, deposits and prepayments as at 31 December are as follows:

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
RMB	**84,277**	75,605	**751**	751
Singapore dollar ("SGD" or "S$")	**56**	57	**56**	57
	84,333	75,662	**807**	808

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

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

16. Cash and cash equivalents

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Cash at banks and in hand	**66,245**	119,520	**3,867**	4,452
Cash deposits	**450**	-	**-**	-
	66,695	119,520	**3,867**	4,452

Cash at banks earn interest at floating rates based on daily bank deposits rates. The effective interest rate earned for the year was 1% (2012: 1%) per annum for cash at banks and 2.8% (2012: nil) for pledged cash deposits.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at the end of the financial year:

	Group	
	2013 RMB'000	2012 RMB'000
Cash at banks and in hand	**66,695**	119,520
Cash deposits pledged	**(450)**	-
Cash and cash equivalents	**66,245**	119,520

The currency profiles of the Group's and Company's cash and cash equivalents as at 31 December are as follows:

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
RMB	**62,828**	115,068	**-**	-
SGD	**3,867**	4,452	**3,867**	4,452
	66,695	119,520	**3,867**	4,452

Notes to the
Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

17. Share capital

	Group and Company	
	2013 RMB'000	**2012 RMB'000**
Fully paid ordinary shares at the beginning and end of year		
396 million ordinary shares with no par value	**282,820**	282,820

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

18. Statutory reserve

In accordance with relevant PRC regulations, wholly owned foreign enterprises in PRC are required to appropriate not less than 10% of their respective profit after taxation to the statutory reserves until the cumulative balance of the fund reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations and approvals from the relevant PRC authorities, the statutory reserves of these enterprises may be used to offset against their respective accumulated losses or increase the registered capital of the subsidiary. The reserve is not available for dividend distribution to shareholders.

19. Amount owing to a related party

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

	Group		Company	
	2013 RMB'000	**2012 RMB'000**	**2013 RMB'000**	**2012 RMB'000**
Current				
Amount due within 1 year	**2,520**	37,792	**4,374**	2,319
Non-current				
Amount due after 1 year but less than 5 years	**-**	2,520	**-**	-
	2,520	40,312	**4,374**	2,319

The amount owing to a related party by the Group and the Company is denominated in RMB. At 31 December 2013, the balances relate to the purchase of a plant in 2005.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

20. Interest-bearing liabilities

	Group	
	2013 RMB'000	**2012 RMB'000**
Loans and borrowings		
Non-current liabilities		
- Secured	**314,350**	334,350
- Unsecured	**248,000**	178,000
Total non-current liabilities	**562,350**	512,350
Current liabilities		
- Secured	**62,000**	-
- Unsecured	**145,000**	200,000
Total current liabilities	**207,000**	200,000
Total loans and borrowings	**769,350**	712,350

Maturity of interest-bearing loans and borrowings

	Group	
	2013 RMB'000	**2012 RMB'000**
Within 1 year	**207,000**	200,000
After 1 year but within 2 years	**562,350**	512,350
Total interest-bearing loans and borrowings	**769,350**	712,350

As at reporting date, the loans and borrowings of the Group were secured and/or guaranteed by the following:

(i) pledge of certain property, plant and equipment of the Group (Note 11(i));

(ii) pledge of certain land use rights (Note 11(ii)(b));

(iii) pledge of properties owned by related parties;

(iv) corporate guarantee given by related parties; and

(v) corporate guarantee given by third parties.

The loan and borrowings are denominated in RMB and bears interest at the effective interest rate of 6.54% (2012: 7.08%) per annum.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

21. Deferred income

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

	Group	
	2013 RMB'000	**2012 RMB'000**
Cost		
At 1 January	**68,617**	108,041
Relocation expense	**-**	(39,424)
At 31 December	**68,617**	68,617
Accumulated amortisation		
At 1 January	**10,210**	7,975
Amortisation for the year	**7,364**	2,235
At 31 December	**17,574**	10,210
Carrying amount		
At 31 December	**51,043**	58,407
Amortisation due within:		
Next 12 months - current portion	**7,364**	7,364
More than 12 months - non-current portion	**43,679**	51,043
	51,043	58,407

22. Deferred taxation

	Group	
	2013 RMB'000	**2012 RMB'000**
Accelerated tax depreciation	**589**	589

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

At the reporting date, temporary differences in relation to the undistributed earnings of the profitable subsidiaries, for which deferred tax liabilities have not been recognised, is approximately RMB 165,800,000 (2012: RMB 173,200,000). No liability has been recognised in respect of these differences as the Group is able to control the timing of the reversal and it is probable that such differences will not be reversed in the foreseeable future.

Notes to the
Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

23. Trade payables

Trade payables are denominated in RMB, non-interest bearing and are normally settled within 30 days (2012: 30 days).

24. Other payables

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Other payables	**25,579**	38,529	**-**	-
Deposits from customers	**4,042**	4,442	**-**	-
Payables for construction of property, plant and equipment	**5,946**	16,898	**-**	-
Retention money owing to contractors and suppliers	**15,438**	10,102	**-**	-
Accrued operating expenses	**35,839**	50,317	**754**	9,614
Advances from customers	**20,296**	26,140	**-**	-
Other tax payables	**1,881**	6,351	**-**	-
	109,021	152,779	**754**	9,614

Other payables and accruals are non-interest bearing and have an average repayment term of 6 months (2012: 6 months).

The currency profiles of the Group's and the Company's other payables and accruals as at 31 December are as follows:

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
RMB	**108,267**	143,165	**-**	-
SGD	**754**	9,614	**754**	9,614
	109,021	152,779	**754**	9,614

25. Interest-free loan from a director

The loan from a director is non-trade in nature, unsecured, interest-free and repayable within one year from the reporting date.

26. Dividends

During the financial year ended 31 December 2013, the Company declared and paid a final tax exempt dividend of S$0.005 per ordinary share of the Company totalling RMB 9,743,000 (S$1,980,000) in respect of the financial year ended 31 December 2012.

The Company did not recommend any dividend in respect of the financial year ended 31 December 2013.

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

27. Commitments

Operating lease commitments – as lessee

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

	Group	
	2013 RMB'000	**2012 RMB'000**
Within 1 year	**5,597**	5,371
After 1 year but within 5 years	**10,650**	157
	16,247	5,528

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

28. Significant related party transactions

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

	Group	
	2013 RMB'000	**2012 RMB'000**
Transactions with parties in which a director has substantial interest:		
- Operating lease expenses	**5,200**	5,200

In 2013, addition to the above transaction, a director had provided interest-free loan amounting RMB 11,302,000 to the Group and the Company.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

29. Segment information

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

The Group's reportable operating segments are as follows:

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

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

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

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

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

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

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

29. Segment information (Cont'd)

	Corn refining	Animal feeds	Others	Corporate	Eliminations	Notes	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000
2013							
Revenue:							
External customers	**2,616,952**	**359,652**	**32,780**	**-**	**-**		**3,009,384**
Inter-segment sales	**55,670**	**-**	**5,586**	**-**	**(61,256)**	**A**	**-**
Total revenue	**2,672,622**	**359,652**	**38,366**	**-**	**(61,256)**		**3,009,384**
Results:							
Segment profit/(loss) before taxation	**(39,653)**	**1,953**	**(8,494)**	**(13,415)**	**(50,978)**	**B**	**(110,587)**
Income tax expense	**(3,170)**	**-**	**-**	**-**	**-**		**(3,170)**
Interest income from bank	**669**	**18**	**4**	**-**	**-**		**691**
Interest expense on bank loans	**(52,320)**	**(14)**	**(5)**	**(2)**	**-**		**(52,341)**
Depreciation of property, plant and equipment	**(103,111)**	**(1,046)**	**(2,929)**	**(78)**	**1,663**	**C**	**(105,501)**
Amortisation of land use rights	**(1,359)**	**-**	**-**	**-**	**-**		**(1,359)**
Other non-cash (expenses)/income	**(4,864)**	**-**	**1,486**	**-**	**-**	**D**	**(3,378)**
Assets:							
Segment assets	**1,503,616**	**30,845**	**47,282**	**3,991**	**(14,366)**	**E**	**1,571,368**
Additions to non-current assets	**49,192**	**47**	**77**	**-**	**-**	**F**	**49,316**
Liabilities:							
Segment liabilities	**1,123,260**	**16,098**	**7,363**	**12,056**	**589**	**G**	**1,159,366**
2012							
Revenue:							
External customers	3,027,456	323,859	48,471	-	-		3,399,786
Inter-segment sales	68,744	-	19,923	-	(88,667)	A	-
Total revenue	3,096,200	323,859	68,394	-	(88,667)		3,399,786
Results:							
Segment profit/(loss) before taxation	85,789	3,913	8,751	(19,464)	(54,543)	B	24,446
Income tax expense	(8,866)	-	(1,024)	-	-		(9,890)
Interest income from bank	378	19	11	-	-		408
Interest expense on bank loans	(51,833)	(13)	(8)	(3)	-		(51,857)
Depreciation of property, plant and equipment	(85,222)	(1,125)	(2,928)	(77)	1,314	C	(88,038)
Amortisation of land use rights	(624)	-	-	-	-		(624)
Other non-cash expenses	(1,767)	-	(1,045)	-	-	D	(2,812)
Assets:							
Segment assets	1,688,307	31,523	69,416	4,655	(15,038)	E	1,778,863
Additions to non-current assets	211,793	268	2,369	-	-	F	214,430
Liabilities:							
Segment liabilities	1,199,249	17,158	16,751	9,614	589	G	1,243,361

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

29. Segment information (Cont'd)

Notes

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

A Inter-segment revenue are eliminated on consolidation.

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

	2013 RMB'000	2012 RMB'000
Profit/(loss) from inter-segment sales	**672**	(3,094)
Finance costs net of interest income	**(51,650)**	(51,449)
Total	**(50,978)**	(54,543)

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

D Other non-cash expenses comprise the following:

	2013 RMB'000	2012 RMB'000
Amortisation of government grant	**(7,364)**	(2,235)
Addition/(reversal) of write-down of inventories	**4,248**	(122)
Reversal of doubtful trade receivables (net)	**(262)**	(455)
	(3,378)	(2,812)

E The following items are deducted from segment assets to arrive at total assets reported in the consolidated statement of financial position:

	2013 RMB'000	2012 RMB'000
Inter-segment assets	**(14,366)**	(15,038)

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

G The following items are added to segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position:

	2013 RMB'000	2012 RMB'000
Deferred tax liabilities	**589**	589

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

29. Segment information (Cont'd)

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

Geographical segments

	Group	
	2013 RMB'000	2012 RMB'000
Segment revenue by location of customers		
- PRC	**2,859,356**	3,210,470
- Overseas	**150,028**	189,316
	3,009,384	3,399,786
Capital expenditures by geographical location of assets		
- PRC	**49,316**	214,430
Segment assets by geographical location of assets		
- PRC	**1,567,377**	1,749,851
- Overseas	**3,991**	29,012
	1,571,368	1,778,863

30. Financial risk management objectives and policies

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

Credit risk

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

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

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

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

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

30. Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

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

	2013		2012	
	Gross receivables	Allowances for doubtful debt	Gross receivables	Allowances for doubtful debt
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
Within 30 days	**151,188**	**-**	192,069	-
Past due 31 - 90 days	**26,417**	**-**	41,142	-
Past due 91- 180 days	**6,327**	**(477)**	9,552	(814)
Past due 181 - 365 days	**8,341**	**(725)**	3,063	(549)
More than one year	**2,987**	**(2,358)**	4,357	(2,459)
	195,260	**(3,560)**	250,183	(3,822)

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

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

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

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

Liquidity risk

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

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

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

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

30. Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

	2013				2012			
	One year or less	One to two years	Two to five years	Total	One year or less	One to two years	Two to five years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group								
Financial assets:								
Trade and other receivables	**276,033**	**-**	**-**	**276,033**	322,023	-	-	322,023
Cash and cash equivalents	**66,695**	**-**	**-**	**66,695**	119,520	-	-	119,520
Total undiscounted financial assets	**342,728**	**-**	**-**	**342,728**	441,543	-	-	441,543
Financial liabilities:								
Interest-bearing loans and borrowings	**220,529**	**635,856**	**-**	**856,385**	214,159	584,895	-	799,054
Interest-free loan from a director	**11,302**	**-**	**-**	**11,302**	-	-	-	-
Trade and other payables	**324,088**	**-**	**-**	**324,088**	429,390	-	-	429,390
Amounts owing to a related party	**2,520**	**-**	**-**	**2,520**	37,792	2,520	-	40,312
Total undiscounted financial liabilities	**558,439**	**635,856**	**-**	**1,194,295**	681,341	587,415	-	1,268,756
Total net undiscounted financial liabilities	**(215,711)**	**(635,856)**	**-**	**(851,567)**	(239,798)	(587,415)	-	(827,213)

The Group prepares cash flows projections on a regular basis for its core operations to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. In addition, the Group has access to interest-bearing loans and borrowings from financial institutions which is disclosed in Note 20.

Market risk

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

Notes to the
Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

30. Financial risk management objectives and policies (Cont'd)

Interest rate risk

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

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

	Due within 1 year	After 1 year to 2 years	Total
	RMB'000	RMB'000	RMB'000
2013			
Fixed rate			
Interest-bearing loans and borrowings	**207,000**	**562,350**	**769,350**
2012			
Fixed rate			
Interest-bearing loans and borrowings	200,000	512,350	712,350

The fixed rate interest-bearing loans and borrowings bear interest at rates ranging from 5.70% to 9.00% (2012: 6.00% to 7.87%) per annum. Interests are at fixed rates until the maturity of the instrument.

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

The Group's policy is to obtain the most favourable interest rate available for its borrowings. Information relating to the Group's interest rate exposure is disclosed in Note 20. As the Group does not have any floating rate loans and borrowings, they are not exposed to significant interest rate risk.

Foreign currency risk

The Group transacts business in various foreign currencies, mainly USD and SGD, other than the respective functional currencies of the Group, and hence is exposed to foreign currency risks.

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

Sensitivity analysis

At the reporting date, if the USD were to weaken 10% against the RMB, with all variables held constant, the Group's pre-tax profit for the year would have been RMB 1.1 million lower (2012: RMB 2.4 million lower), mainly as a result of foreign exchange gains on translation of USD currency denominated trade receivables. A 10% strengthening against the RMB would have equal but opposite effect.

At the reporting date, the Group is subject to insignificant risk on USD and SGD denominated balances.

Notes to the
Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

31. Capital risk management

The Group manages its capital to ensure that the Group is able to continue as a going concern and maintain an optimal capital structure so as to maximise shareholders' value.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued capital, statutory reserves and accumulated profits.

Management monitors capital based on a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest-bearing / (interest-free) loans and borrowings (including bills payable) less cash and cash equivalents. Total capital is calculated as total equity including non-controlling interests, as shown in the consolidated statement of financial position, plus net debts.

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

	2013 RMB'000	2012 RMB'000
Total borrowings	**781,102**	712,350
Less: cash and cash equivalents	**(66,695)**	(119,520)
Net debt	**714,407**	592,830
Total equity	**412,002**	535,502
Total capital	**1,126,409**	1,128,332
Gearing ratio	**0.63**	0.52

The Group and the Company are not subject to externally imposed capital requirements for the years ended 31 December 2013 and 2012.

32. Fair values

The carrying amount of trade and other receivables, cash and cash equivalents, interest-free loan from a director, interest-bearing liabilities and trade and other payables approximates their fair values due to the short period to maturity. The fair value of the Group's fixed rate interest bearing loans and borrowings approximates their carrying amounts.

The fair value of amount owing to a related party as at the reporting date was estimated via discounting the expected cash flows using a discount rate which approximates the market rate of interest. The fair value is nil (2012: RMB 2,354,000). The difference between the carrying amount and the fair value is nil (2012: RMB167,000) which has not been recognised in the profit or loss as it is not material.

Interest rates used for determining fair value

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

	2013	2012
Amount owing to a related party	**-**	7.08%

Notes to the **Financial Statements**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

33. Contingencies

Legal claim

The former Chief Executive Officer (CEO) of the Company, Michael Cheah Peng Hock (Michael), who was appointed on 1 June 2009, had in September 2009 written a letter claiming that the Company has repudiated his employment contract arising from curtailment of his responsibilities as CEO. On 25 October 2010, the Company was served with a Writ of Summons from Michael for the alleged claims of RMB 8.58 million being the alleged balance of his salary payable according to the Service Agreement/Employment Contract. On 12 January 2011, the Company filed its defence and counter-claim from Michael for the sum of RMB 1.56 million for the repudiation of his employment contract.

On 6 February 2013, High Court of Singapore issued its Ground of Decision in respect of the Suit, allowing claimant's (Michael) claim of RMB 8.58 million, with interest and costs to be assessed, and dismissing the Company's counter-claim. The Company had since filed a Notice of Appeal to the Court of Appeal in respect of the High Court decision.

The related liabilities of RMB 8.58 million have been provided in the financial statements for financial year 2012.

The Court of Appeal dismissed the Company's appeal and upheld the judgement made by the High Court of Singapore. Consequently, the Company paid RMB 8.58 million, together with the interest of RMB 1.348 million (S$273,000) to the former CEO during the year.

Legal claim against IBM amounting to RMB 2.654 million

Luzhou Bio-Chem Technology (Shandong) Co., Ltd. ("Luzhou Shandong") has entered into a service agreement (Contract sum: RMB 2.65 million) with IBM China Co., Ltd ("IBM") on 23 May 2010 to acquire IBM's service on business consulting and system integration which is related to the upgrade of SAP accounting system.

However, IBM was unable to complete the service within the timeline stipulated in the service agreement (July 2010 for financial management consulting work and August 2010 for business process reengineering work). IBM delayed the completion of the abovementioned services until the end of 2010.

Upon the completion of the above mentioned services, IBM issued a testing report of the system and the management realised that there were significant variances in the technical specifications of the installed system as compared to the required specifications stipulated in the service agreement. The management sought rectification by IBM but IBM has refused to take any corrective action.

Luzhou Shandong's management sought recovery of the contract sum paid via legal proceedings on 27 June 2011. The court hearing commenced on 14 February 2012. The court's verdict was issued on 30 November 2012. Luzhou Shandong has won the case and IBM will be liable for the full contract sum. This amount should be paid by IBM within 10 days from 30 November 2012. The claim amounting to RMB 2.65 million remained outstanding as at 31 December 2012 and has been recognised as recoverable in other receivables and other income.

IBM appealed against the first verdict and the case has been finalised on 19 December 2013. According to the verdict of the Supreme People's Court of Shandong, IBM is not guilty and therefore, not liable to the legal claim made by Luzhou Shandong. The claim amount previously recognised had been reversed accordingly during the financial year 2013.

Statistics of **Shareholdings**

AS AT 14 MARCH 2014

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

The Company does not hold any treasury shares.

DISTRIBUTION OF SHAREHOLDINGS

Size of shareholdings	No. of shareholders	% of shareholders	No. of shares	% of shareholdings
1 - 999	3	0.12	1,000	0.00
1,000 - 10,000	1,159	46.29	8,608,000	2.17
10,001 - 1,000,000	1,317	52.59	82,991,000	20.96
1,000,001 and above	25	1.00	304,400,000	76.87
TOTAL	**2,504**	**100.00**	**396,000,000**	**100.00**

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders as at 14 March 2014)

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

Notes:

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

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

Statistics of **Shareholdings**

AS AT 14 MARCH 2014

TWENTY LARGEST SHAREHOLDERS

	Name of shareholder	No. of shares	% of shareholdings
1	CITIBANK NOMINEES SINGAPORE PTE LTD	195,210,000	49.30
2	DBS NOMINEES (PRIVATE) LIMITED	35,739,000	9.03
3	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	10,330,000	2.61
4	CHUA ENG ENG	10,120,002	2.56
5	MAYBANK NOMINEES (SINGAPORE) PRIVATE LIMITED	8,473,000	2.14
6	OCBC SECURITIES PRIVATE LIMITED	6,574,000	1.66
7	TEO RAYMOND	4,085,000	1.03
8	LIONG KIAM TECK	3,536,998	0.89
9	RAFFLES NOMINEES (PTE) LIMITED	2,792,000	0.71
10	CHEN SHUOWANG	2,725,000	0.69
11	TEO POH SUAN	2,717,000	0.69
12	UOB KAY HIAN PRIVATE LIMITED	2,644,000	0.67
13	LIM TCHEN NAN	2,512,000	0.63
14	RAMESH S/O PRITAMDAS CHANDIRAMANI	2,260,000	0.57
15	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	2,036,000	0.51
16	SIM SOO THONG	1,553,000	0.39
17	KO AH HUEY OR TEO POH SUAN	1,467,000	0.37
18	TAN YONG CHIANG OR TAN HUI LIANG	1,403,000	0.35
19	HE GUANGHUI	1,257,000	0.32
20	PAR CHEE ENG	1,257,000	0.32
	TOTAL	**298,691,000**	**75.44**

FREE FLOAT

Based on the information provided to the Company as at 14 March 2014, approximately 44.4% of the issued ordinary shares of the Company was held by the public. Accordingly, Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has been complied with.

Notice of
Annual General Meeting

LUZHOU BIO-CHEM TECHNOLOGY LIMITED
(INCORPORATED IN THE REPUBLIC OF SINGAPORE) (COMPANY REGISTRATION NO. 200412523N)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Falcon Room, Level 3, Laguna National Golf & Country Club, 11, Laguna Golf Green, Singapore 488047, on Tuesday, 29 April 2014 at 2.30 p.m. for the following purposes:-

AS ORDINARY BUSINESS

Resolution 1

1. To receive and adopt the audited accounts for the financial year ended 31 December 2013, together with the Reports of the Directors and the Independent Auditors and the Statement by the Directors.

Resolution 2

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

Resolution 3

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

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

Resolution 4

4. To approve the payment of Directors' fees of SGD140,000 and RMB150,000 for the financial year ending 31 December 2014, to be paid quarterly in arrears (FY2013: SGD130,000 and RMB150,000).

Resolution 5

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

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

AS SPECIAL BUSINESS

Resolution 6

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

   "Authority to allot and issue shares

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

   (A) (i) allot and issue shares in the capital of the Company whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

   (B) (notwithstanding that this authority may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this authority was in force,

Notice of
Annual General Meeting

LUZHOU BIO-CHEM TECHNOLOGY LIMITED
(INCORPORATED IN THE REPUBLIC OF SINGAPORE) (COMPANY REGISTRATION NO. 200412523N)

provided that:-

(1) the aggregate number of shares to be issued pursuant to this authority (including shares to be issued in pursuance of Instruments made or granted pursuant to this authority) does not exceed 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below) ("**Issued Shares**"), of which the aggregate number of shares to be issued other than on a pro-rata basis to the existing shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this authority) does not exceed 20% of the total number of Issued Shares;

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

(i) new shares arising from the conversion or exercise of any convertible securities;

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

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

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

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

[see Explanatory Note (i)]

Resolution 7

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

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

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

[see Explanatory Note (ii)]

BY ORDER OF THE BOARD

Vincent Lim Bock Hui
Company Secretary
Singapore
10 April 2014

Notice of
Annual General Meeting

LUZHOU BIO-CHEM TECHNOLOGY LIMITED

(INCORPORATED IN THE REPUBLIC OF SINGAPORE) (COMPANY REGISTRATION NO. 200412523N)

Explanatory Notes:-

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

(ii) Ordinary Resolution 7 will empower the Directors to grant awards under the Luzhou Performance Share Scheme and to allot and issue shares pursuant to the vesting of the awards under the Scheme, provided that the aggregate number of shares to delivered under the Scheme, when added to the number of shares issued and issuable in respect of all awards granted under the Scheme and all other shares issued and issuable under any other share-based incentive schemes of the Company for the time being in force, shall not exceed 15% of the total number of issued shares (excluding treasury shares) from time to time.

Notes:-

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

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

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

(iv) The instrument appointing a proxy must be deposited at the registered office of the Company at 18 Cross Street #07-11 China Square Central, Singapore 048423, not less than 48 hours before the time appointed for holding the above Meeting.

Annual General Meeting

Proxy Form

LUZHOU BIO-CHEM TECHNOLOGY LIMITED
(INCORPORATED IN THE REPUBLIC OF SINGAPORE)
(COMPANY REGISTRATION NO. 200412523N)

IMPORTANT:

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

I/We, ____ (Name)

of ____ (Address)

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

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

and/or (delete as appropriate)

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

or failing the person or both of the persons above, the Chairman of the Meeting as my/our proxy/proxies to attend and to vote for me/us on my/our behalf, at the Annual General Meeting ("**AGM**") of the Company to be held at Falcon Room, Level 3, Laguna National Golf & Country Club, 11, Laguna Golf Green, Singapore 488047 on Tuesday, 29 April 2014 at 2.30 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 and at any adjournment thereof.

No.	Resolutions relating to:	For	Against
1.	Audited accounts for financial year ended 31 December 2013 and Reports of the Directors and the Independent Auditors and Statement by the Directors		
2.	Re-election of Mr Niu Ji Xing as a Director		
3.	Re-election of Mr Teoh Teik Kee as a Director		
4.	Approval of Directors' fees of SGD140,000 and RMB150,000		
5.	Re-appointment of Mazars LLP as Independent Auditors		
6.	Authority to allot and issue shares		
7.	Authority to allot and issue shares pursuant to Luzhou Performance Share Scheme		

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

Dated this ______________ day of ______________ 2014

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

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

IMPORTANT: PLEASE READ NOTES OVERLEAF

Annual General Meeting
Proxy Form

LUZHOU BIO-CHEM TECHNOLOGY LIMITED

(INCORPORATED IN THE REPUBLIC OF SINGAPORE) (COMPANY REGISTRATION NO. 200412523N)

Notes:-

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

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

3. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this proxy form shall be deemed to relate to all the shares held by you.

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

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

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

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

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

8 Burn Road
#07-09
Trivex
Singapore 369977

Tel: (65) 6225 0148 Fax: (65) 6225 1147
www.luzhou.com.sg