Bloomage BioTechnology Corporation Limited

華熙生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00963

# Shaping the future

# 2008 annual report

# Contents

# Corporate Information

## EXECUTIVE DIRECTORS

Ms. Zhao Yan *(Chairman)*
Mr. Guo Jiajun

## NON-EXECUTIVE DIRECTOR

Mr. Cheng Bo

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Zhan Lili
Mr. Zhang Fuping
Mr. Qin Bin

## COMPANY SECRETARY

Mr. Kam Yiu Shing, Tony

## AUTHORISED REPRESENTATIVES

Mr. Guo Jiajun
Mr. Kam Yiu Shing, Tony

## MEMBERS OF AUDIT COMMITTEE

Mr. Qin Bin *(Chairman)*
Ms. Zhan Lili
Mr. Zhang Fuping

## MEMBERS OF REMUNERATION COMMITTEE

Ms. Zhan Lili *(Chairman)*
Mr. Zhang Fuping
Mr. Guo Jiajun

## MEMBERS OF NOMINATION COMMITTEE

Mr. Zhang Fuping *(Chairman)*
Ms. Zhan Lili
Ms. Zhao Yan

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 678 Tianchen Avenue
Jinan High-tech Development Zone
Jinan City
Shandong Province
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 2201-2203, 22nd Floor
Jardine House
1 Connaught Place
Central
Hong Kong

## COMPLIANCE ADVISER

Cinda International Capital Limited

## AUDITORS

KPMG

## LEGAL ADVISERS AS TO HONG KONG LAWS

Loong & Yeung

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman
KY1-1106
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## STOCK CODE

00963

## COMPANY WEBSITE

www.bloomagebio-tech.com

## PRINCIPAL BANKERS

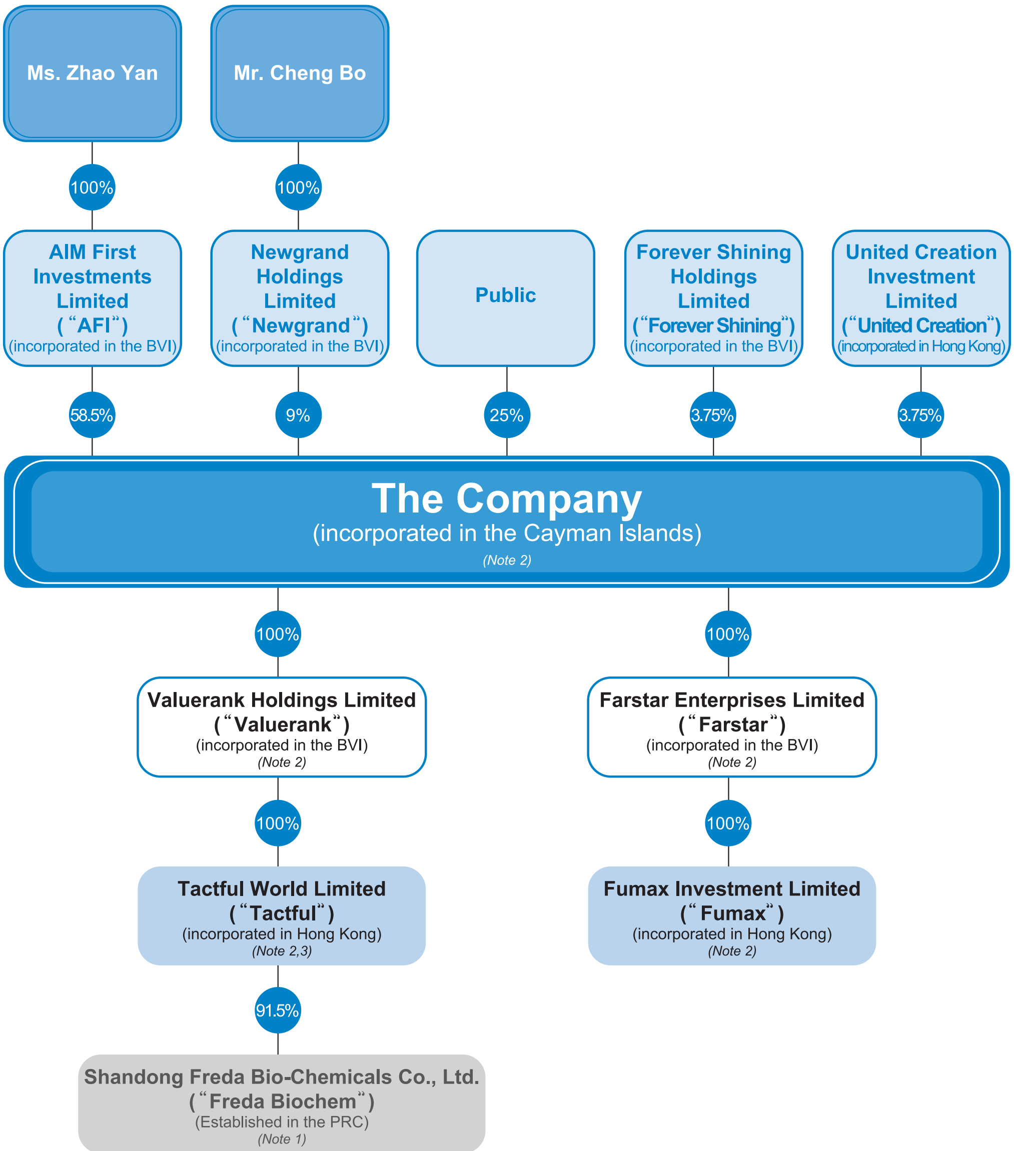
Agricultural Bank of China
Jinan Branch of the Bank of China

# Group Overview

Bloomage BioTechnology Corporation Limited (the "Company", and together with its subsidiaries, the "Group") is an investment holding company. Its principal operating subsidiary is a manufacturer of hyaluronic acid ("HA") in the PRC principally engaging in the manufacture and sale of a diversified portfolio of HA products. HA is a naturally occurring substance found in many parts of human bodies and animals. It is typically found in the joints, vitreous humor in the eyes, skin, the umbilical cord and in rooster combs. HA is a hydrophilic (water-binding) molecule. It has strong moisturising effect for skin and eye when applied topically. Another key characteristic of HA is its viscoelasticity since HA can form protective films in human and animal bodies to maintain the moisture, withstand friction and compression, and lubricate the body tissues. Given that HA exhibits hydrating, lubricating and viscoelastic properties, it is widely used as raw materials/excipients in pharmaceutical, cosmetic and healthcare products. The HA products of the Group can generally be classified into four grades including the injection grade such as viscoelastic agent in eye surgeries and injection for the treatment of osteoarthritis; eye drop grade applied in eye care products such as eye drop, eye wash and contact lens care lotion; cosmetic grade applied in cosmetic products such as skin-care products, hair-care products and topical ointment; and food grade applied in cosmetic products such as skin-care products, hair-care products, and healthcare products such as oral health supplement.

In its early stage of development, the Group focused on the development, production and sale of the more prevalent cosmetic grade and eye drop grade HA products. Upon continuous refinements on product quality and production technologies, the Group is now capable of producing injection grade HA products which have the most stringent quality requirements amongst all the four grades of HA products mentioned above. With an aim to increase the Group's revenue base, the Group plans to expand into the injection grade and food grade markets while maintaining its strong foothold in the cosmetic grade and eye drop grade markets.

The following chart sets out the shareholding and corporate structure of the Group as at the date of this report:




Notes:

1. Freda Biochem is the principal operating subsidiary of the Company. The remaining 8.5% equity interest of Freda Biochem is held by Shandong Freda Pharmaceutical Group Company Limited ("Freda Pharmaceutical Group"), a State-owned enterprise established in the PRC.

2. The Company, Valuerank, Farstar, Tactful and Fumax are investment holding companies.

3. As part of the restructuring of the Group, Tactful, being a wholly owned subsidiary of the Company, acquired from Valuerank and Farstar, both of them also being wholly owned subsidiaries of the Company, their respective interests held in Freda Biochem in 2008, and the aforesaid transfers had been completed as at the date of this report.

**To all Shareholders,**

The year 2008 was an encouraging year for the Group since the shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 October 2008. It marked an important milestone for the Group as the funds raised by the placing and public offering of new shares of the Company is beneficial not only for the long term business development to the Group, but also for enhancement of competitiveness of the Group in the industry.

On behalf of the Group, I am pleased to present the annual result for the year ended 31 December 2008 to all shareholders.

## FINAL DIVIDEND AND CLOSURE OF REGISTER

The board (the "Board") of directors (the "Directors") of the Company has recommended the payment of a final dividend of HK3.2 cents per share for the year ended 31 December 2008, representing the total dividend of HK$9,984,000 and dividend payout ratio of approximately 20.13% for the year ended 31 December 2008. Subject to the approval of the shareholders in the annual general meeting of the Company to be held on 29 May 2009 or any adjourned meeting, the above dividend is expected to be paid on or around 12 June 2009.

The transfer books and register of members of the Company will be closed from 26 May 2009 to 29 May 2009, both days inclusive. During such period, no share transfers will be effected. In order to qualify for the proposed final dividend and attending the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, whose share registration public offices are located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 25 May 2009 (Monday).

## BUSINESS REVIEW

Reviewing the past year, the Group registered good progress despite the impact of financial crisis and the slowdown of the global economy. The Group was not only successfully listed on the main board of the Stock Exchange, but also recorded a turnover of approximately RMB116,599,000 and net profit attributable to the equity holders of RMB43,847,000, representing an increase of 28% and 8% respectively as compared to the year of 2007. The increase was primarily attributable to technical improvement, energy conservation, efficiency enhancement and the expansion of market shares of the Group.

In recent years, with the constant improvement of living standard, people pay more attention to health and life quality. HA, as a natural and healthy substance, has an outstanding advantage in the application of pharmaceutical, cosmetic and healthcare products by leveraging on its hydrating, lubricating and viscoelastic properties, and has more robust demand in the market.

In order to meet the demand for every grade of HA in the market, the Group made much endeavor in research and development of technology and product quality. The Group completed the inspection and acceptance of the "HA production technology" project under the technology plan of Jinan City in 2008. In relation to quality enhancement, the Group obtained the medical device manufacturing enterprise license in 2008. After that, the Group continued to apply for registration of medical device products, such as HA soft tissue filler gel under the third category of medical device (III類醫療器械透明質酸軟組織填充凝膠) and lubricating body lotion under the second category of medical device (II類醫療器械潤滑潔康露). The Ministry of Health of the PRC already approved the production of HA as a new source of food by way of an announcement and the Group obtained a food hygiene permit issued by the Health Bureau of the Shandong Province in September 2008 for the production and sales of food grade HA products, for example, application in oral health supplement as raw materials, creating favorable conditions for the rapid expansion of the market.

Based on the construction of second phase of production base of HA and in order to further expand the international market, the Group, in accordance with the requirements of the related countries and regions such as the US, Europe and Korea, made preparation work on applying for qualification as DMF in Food and Drug Administration in the US ("FDA"), Certificate of Suitability ("COS") in Europe, KDMF in Korean Food and Drug Administration ("KFDA") in relation to injection grade HA, being a high-end product, and on CE certification with an aim to launch soft tissue filler, a new product of HA, in Europe in 2008.

In respect of tax, the income tax rate of the principal operating subsidiary of the Company in the PRC, Freda Biochem, has been raised to 25% from 10% as a result of the convergence of enterprise income tax and income tax on foreign invested enterprise into 25% in the PRC in 2008. However, being one of the first batch of advanced and new technology enterprises in Shandong province identified in January 2009, Freda Biochem should be able to enjoy a preferential tax rate of 15% from January 2008 in accordance with the regulations of the PRC. Furthermore, since the PRC adjusted the value added tax refund rate of export commodities in November 2008, the value added tax refund rate of Freda Biochem has been raised to 11% from 5%. With effect from 1 April 2009, the tax refund rate for exports increased further to 13%. The above favorable policies provide much support for our business growth.

## OUTLOOK

Looking ahead, the Directors consider that the Group, as a bio-technology enterprise, would be less affected by the financial crisis for the reasons below. On the one hand, China's economy is not totally in line with the international economy, and it will keep growing at a steady speed. Meanwhile, more investment in the medical and health service by the PRC government, the aging of population, acceleration of urbanization, the people's rising awareness of health and healthcare, as well as the improvement of living standard all have a positive influence on the sustainable growth of the Group. On the other hand, in view of our actual situation, the Group continued adhering to the strategic principles of "being a pioneer in technology with focus on the research in refined and high technology of HA to pursue a comprehensive and professional path of development in research, production and sales" in response to the complicated economic situation and to consolidate our professional status in HA field.

To expand its development, the Group will intensify its efforts on research and development to research and expand the range of high value-added products. The Group's development strategy in the future is to master the increasing popularity of food grade HA products, to consolidate the increasing market shares of cosmetic and eye drop grade HA and to expand into the pharmaceutical grade products (injection grade HA), being a high-end product with higher sales price. After the government approved our application for HA as a new source of food in 2008, the Group will strengthen promotion of foreign trade especially in the US, Japan and Taiwan and also increase domestic sales of food grade HA. Topical application grade HA targets at enhancing the marketing of low-molecular grade products in Europe and the US.

The State Council announced that it intends to invest some RMB4,000 billion by the end of 2010 to boost domestic demand through measures including: to accelerate the development of medical and health service; to speed up self-innovation and structural adjustment; to support the industrial development of advance technology and advancement of industrial technology; to conduct a comprehensive reform on value added tax in all industries; and to encourage the technical improvement of enterprises and to alleviate the burden of enterprises. Such measures adopted by the PRC to stimulate domestic demand create favorable conditions for the Group to develop domestic market and resist the risks exposure to international market.

The Board and I feel confident of the future development of the Group and we believe that the Group will be able to capture opportunities arising from various adversities and challenges for developing rapidly and creating permanent and maximum values for shareholders.

## APPRECIATION

I would like to take this opportunity, on behalf of the Board, to express my gratitude for the continuous support and trust of our shareholders, customers, business partners and bankers and also for the contribution of our management and our staff members.

**Zhao Yan**

Chairman
17 April 2009

## BUSINESS REVIEW

In 2008, the Group achieved good results, with its turnover for the first time exceeding over RMB100 million, at RMB116,599,000, which represented an increase of 28% as compared with RMB91,081,000 in 2007. Its gross profits increased 24% from RMB72,459,000 in 2007 to RMB89,905,000 in 2008; and its distributable profits increased 8% from RMB40,611,000 in 2007 to RMB43,847,000 in 2008. In line with the dividend policy set out in the prospectus of the Company dated 19 September 2008 (the "Prospectus"), the Board has recommended the payment of a final dividend with the amounts not exceeding 25% of the profits attributable to shareholders for the year ended 31 December 2008. Subject to the approval by the shareholders at the forthcoming annual general meeting, the Directors recommended the payment of a final dividend of HK3.2 cents per share for the year ended 31 December 2008 to shareholders whose names appear on the register of members of the Company on 29 May 2009, amounting to approximately HK$9,984,000 in total.

The management of the Company believes the results for the financial year of 2008 are satisfactory, owing to the the following factors:

### Sales expansion and improvement

The sales force of the Group was based on its technical supports and professional services. The introduction of various and effective professional advertising strategies strengthened the publicity and sales in both international and domestic markets. The Group dispatched staff to participate in specialized domestic and overseas trade fairs several times to display and present its professional ability and strength in the HA field. By further adjustment and segmentation of markets, and holding regional promotion fair for the products, the Company enhanced its efforts on securing new clients, resulting in over 150 new customers being developed in 2008. Our new customers, coupled with our sales to existing customers, contributed an annual sales amount of 19,165 kg in 2008, representing an increase of 59% as compared with 12,030 kg in 2007. This effectively strengthened and enhanced the Group's market share of HA in the domestic market and increasingly expanded its sales percentage in the international market.

### Technology improvement and costs reduction

In 2008, for the purpose of maximizing the economic benefit of HA products, the Group on the one hand endeavoured to increase the product yield rate and production efficiency by further optimizing and improving production technologies such as HA fermentation and purification; and on the other hand, it stepped up efforts on the improvement of the relevant production processes and equipment reform to promote energy saving and consumption reduction. Through the improvement of various processes for HA, the Group continually enhanced the product quality and maintained a relatively high technological level and reduced production costs for HA, which generated greater economic benefits for the Group.

### R&D enhancement and product expansion

In 2008, on the strength of its development capability, the Group had constantly developed new production techniques. In order to provide more selections of products to customers, the Group increased its HA products at various molecular levels and enhanced the purity of its HA products. The Group also further developed and produced products which were tailored to and met the standards of the customers' requirements in order not only to continually secure the co-operation relationships with existing customers but also to explore new customers by relying on its continued expansion of product lines and hence the market shares and to fulfill the constantly upgrading market demand by means of strong technical support.

### Full preparation and quality enhancement

As to quality enhancement, in 2008, in order to strengthen market competitiveness, the Group applied for and has been granted approval from the Ministry of Health for the use of sodium HA as a new source of food. In September 2008, the Group obtained a food hygiene permit for such food from the Health Department of the Shandong Province and filed the standard of such HA as a new source of food with the supervision authority under the government of Shandong Province. In addition, in August 2008, the Group also obtained the medical device manufacturing enterprise license. On this basis, the Group will continue to apply for the registration of medical device products, such as HA soft tissue filler gel under the third category of medical device (III 類醫療器械透明質酸軟組織填充凝膠) and lubricating body lotion under the second category of medical device (II 類醫療器械潤滑潔康露).

## BUSINESS OUTLOOK

The Group aims to become a leading HA manufacturer in the international market in terms of product volume, quality and research and development capabilities by leveraging on its principal strengths and by implementing the following strategies:

### Strengthen the production technology and product development by enhancing the research and development capability

The success of the Group is, to a significant extent, attributable to the strong research and development capability of the Group. The Group intends to continue to invest in research and development of new production technologies to expedite the development of injection and food grades HA products, continue to improve the production yield rate and the quality of its existing products in order to develop and launch new products that have promising demand, such as cross-linked HA used as soft tissue filler. Although the Group has a research and development team led by experienced technical staff, the Group intends to recruit approximately five to nine additional research staff by the end of 2009 to strengthen its research and development capability.

## Expand the production capacity and product range to finished injection grade HA products as medical device

In order to meet the expected increase in demand as a result of market development and product enrichment, the Group has completed the construction of the second phase of its production base with a total gross floor area of approximately 18,600 sq. m., which has already commenced operation. In the second phase of the production base, a new production line for the manufacture of HA used as raw materials and excipients for pharmaceutical products (comprising eye drop and injection grade HA) which is in compliance with the GMP standards has been set up. This production line has commenced trial operation with an annual production capacity of two tonnes and the capability of handling the production process starting from filtration to packing. Before obtaining all necessary qualification for manufacture of raw materials and excipients for pharmaceutical products, this new production line will be mainly used for the manufacture of injection grade HA (as intermediates of raw materials of pharmaceutical products) and eye drop grade HA products (in the form of pharmaceutical excipients). The existing production line will mainly be used for the manufacture of cosmetic and food grade HA products, but it will still handle the production process from incubator culture to fermenter culture for eye drops and injection grade HA products. After setting up of these new production lines, the Group intends to obtain a number of certificates such as FDA certificate in the US for its injection grade products, COS certificate in Europe and KFDA certificate in Korea for the Group's eye drop grade and injection grade products and GMP certificate for its new production line for the manufacture of raw materials and excipients for pharmaceutical products. The Directors believe that with such certificates, the demand for the Group's products will be boosted since it is a prerequisite for some potential customers of the Group, such as drug and health food manufacturers, that the Group should obtain the relevant certificates so that they can use the Group's products as raw materials in their production. In addition, HA products applied in pharmaceutical uses generally can attract higher selling prices than other HA products, which in turn will bring higher sales revenue to the Group.

The injection grade HA products the Group currently manufactures are only used as raw materials for medical devices or intermediates of raw materials for pharmaceutical products. In order to expand its product range in the high end market, the Group plans to manufacture finished injection grade HA products which would be used as medical device. The finished HA product that the Group intends to launch is a soft tissue filler that makes use of cross-linked HA and is applied in cosmetic plastic surgery for filling soft tissue defects such as facial wrinkles. Another new production line for the manufacture of finished injection grade HA which would be used as medical device products with an annual production capacity of one million units has also been set up in the second phase of the Group's production base. In 2008, the Group obtained the medical device manufacturing enterprise license (醫療器械生產企業許可證). After obtaining the medical device registration certificate (醫療器械註冊證書), which is expected to be granted by the end of 2010, the Group will be able to manufacture finished injection grade HA products as medical device such as soft tissue filler products. The production line for the manufacture of finished injection grade HA products as medical device will not commence commercial operation until the Group has obtained all the necessary licenses and certificates required, which is expected to be before the end of 2010, though according to the relevant laws and regulations, small-scale operation may be conducted through this production line for the purpose of application for the relevant licenses and certificates.

It is expected that the annual production capacity of the Group will be increased gradually to approximately 30-40 tonnes upon commencement of operation of the second phase of the Group's production base.

### Expand distribution network

The Group intends to develop business relationship with more renowned brand names in order to increase the market awareness of the Group's brand and to expand its share in overseas market. The Group will target at cosmetic products, health food and pharmaceutical products enterprises with well known brand names in the international markets. In order to develop business relationship with such enterprises, the Group will strengthen its marketing efforts by participating in more trade fairs and exhibitions and paying visits to potential customers so that the Group can get closer contacts with these enterprises to understand their needs.

As regards the expansion of the overseas markets, the Group will continue to focus on the US, Asia Pacific region and Europe, where it has already developed its foothold and the Directors believe that these markets are of high consumption power, and will further expand other new markets such as Russia, India and South America. The Directors consider that the Group has adequate resources for expanding these new markets given that the quality and the quantity of the Group's products can fulfill the requirements of these markets; the Group's sales staff have accumulated extensive experiences on overseas sales; and the Group has already made some sales in these markets. The Group will actively participate in the relevant fairs and exhibitions, convene product introduction conference and place advertisements so as to promote the image of the Group's products. Furthermore, the Group will commence to establish and expand sales network by selecting local distributors and customers.

The Group also plans to expand the sales of food grade HA products. Up to 31 December 2008, the Group has not manufactured and sold food grade HA products used as food, raw material of food or food additives. Instead, the food grade HA products have been manufactured and sold for cosmetic use. At present, the Ministry of Health of the PRC（中華人民共和國衛生部）has already approved the production of HA as a new source of food and the Group has obtained a food hygiene permit（食品衛生許可證）issued by the Health Bureau of the Shandong Province（山東省衛生廳）on 10 September 2008 for the production and sales of HA as a new source of food. The permitted range marked on the permit is production and sales of "HA" as "a new source of food". The permit is valid from 10 September 2008 to 9 September 2012 and is subject to annual inspection. After obtaining the food hygiene permit, the Group can manufacture and sell the food grade HA products for food use, for example, apply the same in oral health supplement as raw material. The Group will strengthen the marketing effort to promote the food grade products to customers such as health food manufacturers. Furthermore, the Food Safety Law of the PRC（中華人民共國食品安全法） was promulgated on 28 February 2009, but the related implementation measures have not been announced yet. The Group will pay close attention to this development. If such law is applicable to the Group, the Group will strictly comply with the requirements of such law and its implementation measures or related auxiliary provisions, and will conduct such procedures for approval, registration or filing if necessary.

In order to expand its distribution network, the Group will strengthen its sales and marketing team by increasing the number of team members and improving their quality.

## FINANCE REVIEW

### Turnover

The Group's turnover for the year 2008 was RMB 116.599 million, representing an increase of 28.0% or RMB 25.518 million as compared to 2007. The increase in turnover was mainly attributable to the efforts made by the Group in market expansion.

The breakdown of the Group's turnover by products was as follows:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2008** | | 2007 | |
| | ***RMB'000*** | **%** | *RMB'000* | *%* |
| Injection | **15,488** | **13.3** | 9,181 | 10.1 |
| Eye drop | **9,033** | **7.7** | 13,236 | 14.5 |
| Cosmetic | **70,260** | **60.3** | 49,925 | 54.8 |
| Food | **20,551** | **17.6** | 16,707 | 18.4 |
| other | **1,267** | **1.1** | 2,032 | 2.2 |

### Cost of sales

Cost of sales for the year ended 31 December 2008 was approximately RMB 26.694 million, representing an increase of approximately 43.3% as compared to approximately RMB 18.622 million for 2007. The increase was mainly attributable to the increase in the sales.

### Gross profit margin

The Group's gross profit margin for the year 2008 was approximately 77.1%, remaining stable as compared to 79.6% for 2007.

### Other revenue and income

Other revenue and income of the Group was RMB 4.083 million for the year 2008, representing an increase of about 144.1% from approximately RMB 1.673 million for the year 2007. The increase in other revenue and income was attributable to the increase in the government grants and the income generated from processing service.

### Distribution cost

The Group's distribution cost for the year 2008 was approximately RMB11.546 million, representing an increase of about 45.9% from approximately RMB7.916 million for the year 2007. The increase was mainly due to the increase of commission, product exhibition fee, transport charges and travelling expenses arising from promotion of sales.

### Administrative expenses

The Group's administrative expenses for the year 2008 were approximately RMB 16.410 million, representing an increase of about 48.4% from approximately RMB 11.056 million for the year 2007. The increase in administrative expenses was mainly due to the increase in (i) the staff salaries and welfare resulted from the recruitment of additional staff; (ii) research and development cost of products; and (iii) agent service charges.

### Other operating expenses

The Group's other operating expenses for the year 2008 were approximately RMB 895,000, representing an increase of about 12.7% from approximately RMB 794,000 for the year 2007. The increase in other operating expenses for the year 2008 was mainly attributable to the increase in the exchange loss and bank commission.

### Finance costs

The Group's finance costs for the year 2008 was approximately RMB 10.407 million, representing an increase of about 17.8% from approximately RMB 8.832 million for the year 2007. The increase in finance costs was mainly attributable to the increase in bank borrowings.

### Net profit for the year

The Group's net profit for the year 2008 was approximately RMB 43.847 million, representing an increase of about 8% from approximately RMB 40.611 million for the year 2007.

### Final dividend and closure of register

The Board proposed the payment of a final dividend of HK3.2 cents per share to shareholders whose names appear on the Register of Shareholders of the Company on 29 May 2009. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, it is expected that the final dividend will be paid on or around 12 June 2009.

The transfer books and register of members of the Company will be closed from 26 May 2009 to 29 May 2009, both days inclusive. During such period, no share transfers will be effected. In order to qualify for the proposed final dividend and attending the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, whose share registration public offices are located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 25 May 2009 (Monday).

## Liquidity and Financial Resources

As at 31 December 2008, the Group had current assets of approximately RMB97.488 million (2007: RMB60.307 million) and current liabilities of approximately RMB42.716 million (2007: RMB74.539 million). The current ratio of the Group as at 31 December 2008 was approximately 228.2% (2007: 80.9%). The increase in current ratio was due to the increase in cash resulted from the net proceeds from the share offer on the Company's initial listing on the Stock Exchange.

As at 31 December 2008, the Group had cash and cash equivalents of approximately RMB71.634 million (31 December 2007: RMB31.762 million) and total liabilities of approximately RMB87.513 million (31 December 2007: RMB116.231 million), of which RMB10 million was short-term bank borrowings. All of the Group's bank borrowings were subject to fixed interest rates and were denominated in RMB.

As at 31 December 2008, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 40.7% (31 December 2007: 81.5%). The decrease in gearing ratio as at 31 December 2008 as compared to that as at 31 December 2007 was principally attributable to the increase in total assets resulted from the net proceeds from the share offer on the Company's initial listing on the Stock Exchange.

Net cash generated from operating activities for the year was approximately RMB59.708 million.

Net cash outflow to investing activities for the year was approximately RMB25.357 million after the offset between the capital expenditure of approximately RMB25.472 million in enhancement of production facilities in various divisions of the Group and the income generated from the disposal of fixed assets of approximately RMB115,000.

Net cash inflow from financing activities for the year was approximately RMB5.654 million, representing the net proceeds of approximately RMB52.239 million from the share offer on the Company's initial listing on the Stock Exchange and the payment of interest of preferred shares of RMB6.234 million, the net repayment of the bank borrowings of RMB 10 million and the payment of dividend prior to the reorganization of the Group before the listing of the Company of approximately RMB30.351 million.

The Board is of the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

## Exchange Risk Exposure and Contingent Liabilities

The Group's sales were principally made in RMB and US Dollars, with the majority of which denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group has not adopted formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review.

As at 31 December 2008, the Group had no contingent liabilities.

## Capital Commitment

As at 31 December 2008, the capital commitment of Group was approximately RMB12.32 million (2007: RMB23.115 million).

## Employee information

As at 31 December 2008, the Group had 206 employees, the majority of whom were stationed in the PRC. Total remuneration for the year amounted to RMB14.170 million (2007: RMB12.316 million). The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

## Charge on assets

As at 31 December 2008, the Group's buildings and land use right with an aggregate book value of approximately RMB35.786 million (2007: RMB 36.728 million) were pledged to secure banking facilities granted to the Group.

## Material acquisitions and disposal of subsidiaries and associated companies

During the year ended 31 December 2008, apart from the reorganization in relation to the listing of the shares of the Company, there was no material acquisition and disposal of subsidiaries and associated companies by the Group.

## DIRECTORS

The Board comprises six Directors, among whom there are two executive Directors, one non-executive Director and three independent non-executive Directors.

### Executive Directors

**Ms. Zhao Yan**, aged 42, is the Chairman and an executive Director. Ms. Zhao had been a director of Freda Biochem since 2003. She is a director of all the subsidiaries of the Company. Ms. Zhao graduated with a bachelor degree in science with major in biology from the East China Normal University (華東師範大學) in 1986 and completed an international MBA program organized by the China Center for Economic Research at Peking University from 2000 to 2002, and was awarded a master degree of business administration by Fordham University of the US in 2002. From 2000 to 2002, she was the general manager of Bloomage Holystar Investment Co., Ltd. (華熙昕宇投資有限公司), a company engaged in the provision of venture capital, investment management and consultancy services and business management consultancy services. Presently, Ms. Zhao is also the chairman and general manager of Bloomage Investment Co., Ltd (華熙中環投資有限公司) ("Bloomage Investment"), an investment holding company the subsidiaries of which are principally engaged in property development and investments in the PRC as well as operation and management of stadium and commercial projects in the PRC. Ms. Zhao is primarily responsible for the Group's corporate policy formulation, business strategic planning and business development.

**Mr. Guo Jiajun (Song)**, aged 33, is an executive Director. He graduated from Shandong University at Weihai (山東大學威海分校) in 1998 with a bachelor degree of science with major in electronics and information systems and completed an international MBA program organized by the China Center for Economic Research at Peking University from 2005 to 2008, and was awarded a master degree of business administration by Fordham University of the US in 2008. He worked for the Housing Fund Management Centre of Weihai Finance Bureau in Shandong (山東省威海市住房公積金管理中心) as a staff member and was responsible for the management and payment of housing funds from 1998 to 2001. He was the manager of the administration department of Bloomage Investment, an investment holding company (the subsidiaries of which are principally engaged in property development and investments in the PRC as well as operation and management of stadium and commercial projects in the PRC). He is primarily responsible for the Group's strategic development and investment planning. He is also responsible for supervising the management team of the Group to implement and execute decisions of the Board. He is a director of Freda Biochem. He joined the Group in March 2006.

## Non-executive Director

**Mr. Cheng Bo**, aged 48, is a non-executive Director. Mr. Cheng completed a postgraduate course in management science and engineering organized by the University of Electronic Science and Technology of China (電子科技大學) from 1999 to 2001. Mr. Cheng also completed an advanced study program in business administration at Renmin University of China (中國人民大學) from 2001 to 2003. Mr. Cheng has been working at Shandong Bausch & Lomb Freda Pharmaceutical Co., Ltd. (山東博士倫福瑞達製藥有限公司) ("Bausch & Lomb Freda"), a company principally engaged in the research, production and sale of biochemical drugs including eye drugs since 1991 and is presently the vice-president of Bausch & Lomb Freda. He has been a director of Freda Biochem since October 1999.

## Independent Non-executive Directors

**Ms. Zhan Lili**, aged 36, was appointed as an independent non-executive Director on 1 September 2008. She completed her studies in business administration at the Faculty of Business Administration of Capital University of Economics and Business in 2003. Ms. Zhan was an assistant to the General Manager of Tomson (Shanghai) Company Limited (湯臣高爾夫(上海)有限公司) from 2000 to 2001, worked in the human resource department of the Beijing branch of Industrial Bank Co., Ltd. (興業銀行) from 2003 to 2007 and has been a president assistant of Beijing Hai Dian Science & Technology Development Co., Ltd. (北京海澱科技發展有限公司), a company engaged in investments in bio-technology and pharmaceuticals, electronics and information technology, environmental protection materials and property development, since 2007.

**Mr. Zhang Fuping**, aged 52, was appointed as an independent non-executive Director on 1 September 2008. He obtained an executive master of business administration degree from Tsinghua University (清華大學) in 2006. Mr. Zhang is accredited as a senior economist in China. He has been a vice chairman, a vice secretary of the Party Committee (黨委副書記) and the general manager of Beijing Sanyuan Group Limited Company (北京三元集團有限責任公司), the company together with its subsidiaries which are engaged in agriculture, livestock farming and food processing industry, from 2002 to April 2007. Since April 2007, Mr. Zhang has been the secretary of the Party Committee (黨委書記) and the chairman of Beijing Sanyuan Group Limited Company (北京三元集團有限責任公司) and since June 2007, he has also been the chairman of Beijing Sanyuan Foods Co., Ltd. (北京三元食品股份有限公司), a company listed on the Shanghai Stock Exchange. Save for his current directorship in Beijing Sanyuan Foods Company Limited (北京三元食品股份有限公司) and the Company, Mr. Zhang has not been a director of any listed companies in the past three years.

**Mr. Qin Bin**, aged 41, was appointed as an independent non-executive Director on 1 September 2008. He obtained a master degree in economics from Nanjing University (南京大學) in 1995 and a doctoral degree in economics from Renmin University of China (中國人民大學) in 1998. He worked at the management of overseas branches division of the Bank of China (中國銀行) from 1998 to 2000 as an officer and was responsible for statistics and analysis of the overseas business of the Bank of China. He worked at China Orient Asset Management Corporation (中國東方資產管理公司) since 2000, and is now the deputy general manager of the research and development department of China Orient Asset Management Corporation (中國東方資產管理公司). During his employment with China Orient Asset Management Corporation, Mr. Qin has handled financial restructuring and debt-equity swap works for corporations, in which he has to use his expertise including accounting and corporate finance. Mr. Qin was a director of CNNC Hua Yuan Titanium Dioxide Co., Ltd (中核華原鈦白股份有限公司) ("CNNC"), a company subsequently listed on the Shenzhen Stock Exchange on 3 August 2007 which is principally engaged in the manufacture and sale of titanium dioxide, from February 2004 to May 2006. Save as disclosed above, he has not been a director of any listed companies in the past three years. During his directorship with CNNC, Mr. Qin has, as a member of the board of directors, participated in the exercise of the following powers, including formulation of annual budget, profit distribution proposal, merger and acquisition proposal, share repurchase proposal, issue of debentures or other securities of CNNC. With Mr. Qin's financial management experience and expertise and his educational background, the Directors believe that Mr. Qin possesses adequate financial management expertise as required under Rule 3.10(2) of the Listing Rules.

## SENIOR MANAGEMENT

Apart from the Directors, the senior management of the Group includes:

**Ms. Liu Aihua**, aged 46, is the general manager of Freda Biochem. Ms. Liu graduated from the pharmaceutical department of Shenyang Pharmaceutical University in 1983 with a bachelor degree of science. Ms. Liu had worked for Jinan Yongning Pharmaceutical Ltd. during the period between August 1983 and August 1998 and was responsible for research and technical management. Before joining the Group, Ms. Liu was the vice-president of Shandong Biopharmaceuticals Research Institute（山東省生物藥物研究院）("Biopharmaceuticals Research Institute") (which is a State-owned biopharmaceutical research organization in the Shandong province, the PRC and is the sole investor of Freda Pharmaceutical Group) during the period between July 1998 and December 2001. Ms. Liu has over 25 years' experience in both of pharmaceutical research and management. She joined the Group in January 2002.

**Mr. Wang Chunxi**, aged 41, is the vice general manager of Freda Biochem and the manager of production department of Freda Biochem. Mr. Wang graduated from East China University of Science & Technology with a bachelor degree in engineering and he was major in biochemistry engineering. Mr. Wang worked for the Biopharmaceuticals Research Institute for 10 years. He joined the Group in January 2000 as a chief of workshop.

**Mr. Guo Xueping**, aged 44, is the vice general manager and manager of the research and development department of Freda Biochem. Mr. Guo graduated from the pharmaceutical department of Shandong Medical University with master degree of science in 1987. Mr. Guo worked for Biopharmaceuticals Research Institute for 10 years before joining the Group in January 2000. Mr. Guo obtained the National Technology Advancement Third-Class Award awarded by the National Technology Committee (國家科學技術委員會) (which has been renamed as 科學技術部 (The Ministry of Science and Technology), an independent third party, in 1995 for his research in the production of injection grade hyaluronic acid, the Great Achievement Award of the "Ninth five-years" National Key Technology Tackle Project in 2001 jointly organized by the Ministry of Science and Technology (科學技術部), Ministry of Finance(財政部), National Development and Planning Committee (國家發展技術委員會) and State Economic and Trading Committee (國家經濟及貿易委員會), all being independent third parties, for his research in "the production of hyaluronic acid pharmaceuticals by fermentation", and obtained the Wu Jie Ping Medical Research Award _ Paul Janssen Pharmaceutical Research Award _ Medical Production Third Class Award (吳階平醫學研究獎保羅・楊森醫學研究獎製藥工程專業三等獎) in 2002, which is an award established by International Health Exchange and Cooperation Centre of Ministry of Health (衛生部國際交流與合作中心) and a pharmaceutical enterprise to award the medical and pharmaceutical researches in the PRC, both being independent third parties.

**Mr. Zhang Xing**, aged 41, is the chief financial officer of Freda Biochem, a qualified accountant of the Chinese Institute of Certified Public Accountants. Mr. Zhang worked as the project manager of Beijing Xiwen Certified Public Accountants during the period between 1998 and 2000 before joining the Group in January 2001. During his employment with Beijing Xiwen Certified Public Accountants, he was mainly responsible for auditing works, including liaising with clients on auditing tasks, inspecting relevant financial documents, resolving auditing issues and compiling audit reports.

**Ms. Zhao Jing**, aged 43, is the sales director of Freda Biochem. She joined the Group in February 2003. Ms. Zhao graduated from Shandong Foreign Economic Trade Personnel University (山東省對外經濟貿易職工大學) in 1990 with major in management of foreign trade enterprises. Before joining the Group, Ms. Zhao worked in Yantai North Andre Juice Co., Ltd. (煙台北方安德利果汁股份有限公司) during the period between March 1997 and February 2003 and was responsible for sales management.

**Mr. He Shan**, aged 38, graduated from Shandong Economic Management Institute in 2001, majoring in national economic management. He worked for the Biopharmaceuticals Research Institute and was responsible for office administration before joining the Group in January 2000. At present, Mr. He is the manager of the human resources department of Freda Biochem.

**Ms. Hu Huaihong**, aged 40, is the manager of the finance department of Freda Biochem. She graduated from Guangdong University of Business Studies (廣東商學院) majoring in financial accounting and was awarded a bachelor degree in economics. Ms. Hu worked for the Biopharmaceuticals Research Institute during the period between July 1990 and December 1999 and was responsible for financial management. She joined the Group in January 2000.

**Mr. Kam Yiu Shing, Tony,** aged 47, is the company secretary and the qualified accountant of the Company. Mr. Kam holds a master degree in business administration from Monash University, Australia. Mr. Kam is also a fellow of the Hong Kong Institute of Certified Public Accountants and the Chartered Association of Certified Accountants, an associate of the Institute of Chartered Accountants in England and Wales and the Taxation Institute of Hong Kong, and council member of the Society of Chinese Accountants & Auditors. Mr. Kam has been practicing as a certified public accountant since 1993. He joined the Group in March 2008.

The Directors herein present to the shareholders the audited financial statements of the Company for the year ended 31 December 2008.

## GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 3 April 2006. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 10 April 2008.

The shares of the Company have been listed on the main board of the Stock Exchange since 3 October 2008.

## PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were investment holding and those of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 43.

Subject to approval by the shareholders at the forthcoming annual general meeting of the Company, the Directors recommended the payment of a final dividend of HK3.2 cents for the year ended 31 December 2008 to shareholders whose names appear on the register of members of the Company on 29 May 2009, amounting to approximately HK$9,984,000 in aggregate.

## CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from 26 May 2009 to 29 May 2009, both days inclusive. During such period, no share transfers will be effected. In order to qualify for the proposed final dividend and attending the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, whose share registration public offices are located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 25 May 2009 (Monday).

## GROUP FINANCIAL SUMMARY

The summary of the results of the Group for the four years ended 31 December 2008 and the assets and liabilities of the Group as at 31 December, 2005, 2006, 2007 and 2008 are set out on page 104.

## DONATIONS

Donations made by the Group during the year amounted to HK$1,000,000.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 27 to the financial statements.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

## EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the paragraph headed "Share Option Scheme" below.

## REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in notes 9 and 10 to the financial statements.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares in October 2008 (the "Share Offer"), less listing expenses, amounted to approximately HK$60 million. During the year ended 31 December 2008, net proceeds were utilised as follows:

| | *HK$'000* |
|---|---|
| Constructing the new production line for the manufacture of eye drop and injection grade HA products | 5,618 |
| Constructing the new production line for the manufacture of finished injection grade HA products which would be used as medical device | 0 |
| Improving research and development capability | 2,179 |
| Promotion and expansion of the Group's distribution network | 985 |
| General working capital | 1,967 |

The remaining balance was deposited in banks in the PRC and Hong Kong.

## DIRECTORS' INTERESTS IN CONTRACTS

Apart from the contracts relating to the reorganization in relation to the listing of the shares of the Company and the Share Offer, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company who held office during the year were:

### Executive Directors:

Ms. Zhao Yan *(Chairman)*
Mr. Guo Jiajun

### Non-executive Director:

Mr. Cheng Bo

### Independent non-executive Directors

Ms. Zhan Lili
Mr. Zhang Fuping
Mr. Qin Bin

All the Directors of the Company will retire at the forthcoming annual general meeting and, all being eligible, will offer themselves for re-election at the said meeting.

The Company has received annual confirmations of independence from Mr. Zhang Fuping, Mr. Qin Bin and Ms. Zhan Lili and as at the date of this report still considers them to be independent.

Each of the executive Directors has entered into a service contract for an initial term of one year commencing from 3 October 2008 (the "Listing Date"). Each of the executive Directors and the Company may terminate the appointment by giving the other party not less than three months' prior notice in writing. Each of the non-executive Directors (including the independent non-executive Directors) has entered into a service agreement with the Company for a term of one year commencing on the Listing Date. Each of the non-executive Directors (including the independent non-executive Directors) and the Company may terminate the appointment at any time during the one-year term by giving the other party at least one month's notice in writing.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable by the Company within one year without payment other than statutory compensation.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 17 to 21.

## SHARE OPTION SCHEME

As to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 3 September 2008 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants and advisers or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 3 October 2008 and shall be valid and effective for a period of ten years commencing on 3 September 2008, subject to the early termination provisions contained in the Scheme.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00. The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10% of the shares in issue on the Listing Date. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

The total number of securities available for issue under the Scheme as at the date of this report was 31,200,000 Shares which represented 10% of the issued share capital of the Company as at the date of this report. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

No share option has been granted during the year.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2008, the interests and short positions of the Directors and/or chief executive of the Company in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to section 352 of the Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

### (i) Interests and short positions in shares

| Name of Director | Nature of interest | Number of Shares held | Percentage of issued share capital of the Company |
|---|---|---|---|
| Ms. Zhao Yan | Interest of a controlled corporation (note 2) | 182,520,000 (L) *(Note 1)* | 58.5% |
| | Interest of a controlled corporation (note 3) | 11,700,000 (L) | 3.75% |
| Mr. Cheng Bo | Interest of a controlled corporation (note 4) | 28,080,000 (L) | 9% |

*Notes:*

(1) The letter "L" denotes a long position in the Shares.

(2) The 182,520,000 Shares are held by AFI, which is wholly-owned by Ms. Zhao Yan. Therefore, Ms. Zhao is deemed, or taken to be, interested in all the Shares which are beneficially owned by AFI for the purposes of the SFO.

(3) The 11,700,000 Shares are held by Forever Shining, which is beneficially owned by five employees of the Group, namely Ms. Liu Aihua, Mr. Guo Xueping, Mr. Wang Chunxi, Ms. Zhao Jing and Ms. Hu Huaihong. The five employees have irrevocably appointed Ms. Zhao as the sole director of Forever Shining, and from the date on which Forever Shining acquired the shares of the Company and up to the expiry of a two-year period commencing from the Listing Date, if the relevant employee ceases to be an employee of the Group for any reason, Ms. Zhao has the right to request the relevant employee to transfer to her the shares the relevant employee held in Forever Shining at the same price paid by the relevant employee for acquiring his/her proportional interest in the shares of the Company. Therefore, Ms. Zhao is deemed, or taken to be, interested in the Shares held by Forever Shining.

(4) The 28,080,000 Shares are held by Newgrand, which is wholly-owned by Mr. Cheng Bo. Therefore, Mr. Cheng is deemed, or taken to be, interested in all the Shares which are beneficially owned by Newgrand for the purposes of the SFO.

### (ii) Long position in the ordinary shares of associated corporation

| Name of Director | Name of associated corporation | Capacity | Numer of securities | Approximate percentage of shareholding |
|---|---|---|---|---|
| Ms. Zhao Yan | AFI | Beneficial owner | 50,000 ordinary shares | 100% |

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2008, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

| Name | Nature of interest | Number of Shares held | Approximate percentage of the issued capital of the Company |
|---|---|---|---|
| Substantial shareholders | | | |
| AFI *(Note 2)* | Beneficial owner | 182,520,000 (L) *(Note 1)* | 58.5% |
| Wang Yi *(Note 3)* | Interest of spouse | 194,220,000 (L) | 62.25% |
| Others | | | |
| Newgrand *(Note 4)* | Beneficial owner | 28,080,000 (L) | 9% |
| Zhu Jin Rong *(Note 5)* | Interest of spouse | 28,080,000 (L) | 9% |

*Notes:*

(1) The letter "L" denotes a long position in the Shares.

(2) AFI is wholly-owned by Ms. Zhao Yan. Ms. Zhao is the sole director of AFI.

(3) Wang Yi is the spouse of Ms. Zhao. Under the SFO, Wang Yi is deemed, or taken to be, interested in all the Shares in which Ms. Zhao is interested.

(4) Newgrand is wholly-owned by Mr. Cheng Bo. Mr. Cheng is the sole director of Newgrand.

(5) Zhu Jin Rong is the spouse of Mr. Cheng. Under the SFO, Zhu Jin Rong is deemed, or taken to be, interested in all the Shares in which Mr. Cheng is interested.

Save as disclosed above, as at 31 December 2008, the Directors of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred therein.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the section headed "Directors' interests and short positions in shares, underlying shares and debentures" above, at no time during the year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## COMPETING INTERESTS

None of the Directors, and the substantial shareholders had any interests in any business, which competed with or might compete with the business of the Group.

The Board has established a committee (the "Committee") comprising all the independent non-executive Directors which was delegated with the authority to review on an annual basis of the non-competition undertakings given by Ms. Zhao, Mr. Cheng and Mr. Ling Peixue in three deeds of non-competition respectively entered into by Ms. Zhao, Mr. Cheng and Mr. Ling Pixue, all dated 3 September 2008 (an extract of the material terms of such undertakings had been set out in the Prospectus). Ms. Zhao, Mr. Cheng and Mr. Ling Peixue confirmed that (a) they have provided all information necessary for the enforcement of their respective deeds of non-competition as requested by the Committee from time to time; and (b) from the effective date of their respective non-competition undertakings and up to 31 December 2008, they had complied with their respective non-competition undertakings. The Committee also confirmed that they did not aware of any non-compliance of the non-competition undertakings given by Ms. Zhao, Mr. Cheng and Mr. Ling Peixue during the same period.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's sales to the largest and five largest customers accounted for approximately 20.9% and 43.7% respectively of the Group's turnover while the Group's purchase from the largest and five largest suppliers accounted for approximately 10.6% and 37% respectively of the Group's purchase.

To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders, who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

## CONTINUING CONNECTED TRANSACTIONS

### (1) Leasing plant to Shandong Freda Bioengineering Co. Ltd ("Freda Bioengineering")

Freda Bioengineering is a sino-foreign equity joint venture enterprise owned as to approximately 46.8% by Freda Pharmaceutical Group and approximately 43.8% by Deep Insight Investments Limited (a company owned as to 52%, 38% and 10% respectively by Ms. Zhao, Mr. Cheng and Mr. Ling Peixue, a director of Freda Biochem). Ms. Zhao and Mr. Cheng are also directors of Freda Bioengineering. As Freda Bioengineering is a company controlled by Ms. Zhao, it is a connected person of the Company under the Listing Rules.

Pursuant to the lease entered into between the Company's operating subsidiary Freda Biochem and Freda Bioengineering on 25 December 2008 ("the Lease"), Freda Biochem leases to Freda Bioengineering certain properties of Shandong plant for a term from 25 December 2008 to 24 December 2011 at an annual rent of RMB418,016. The transaction under the Lease constitutes a continuing connected transaction for the Company. However, as the annual consideration under the Lease is less than HK$1 million, it is a de minimis transaction under Rule 14A.33(3) of the Listing Rules and exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### (2) Sale of products to Freda Bioengineering

Freda Bioengineering has been purchasing products from the Group. For each of the three years ended 31 December 2008, the sales to Freda Bioengineering amounted to approximately RMB51,000, RMB308,000 and nil respectively, representing approximately 0.06%, 0.3% and nil of the Group's total turnover respectively. The sales to Freda Bioengineering during the past three years was made on normal commercial terms. The Group will continue to supply products to Freda Bioengineering on normal commercial terms if it receives any purchase orders from them. However, the Directors expect that the aggregate amount of such sales will be less than RMB500,000 per annum for the two years ending 31 December 2010. Accordingly, the above transaction, if continue in the future, will constitute a continuing connected transaction for the Company which will be exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A.33(3) of the Listing Rules.

(3) The Directors consider that those material related party transactions disclosed in note 31 to the financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

The auditor of the Company has confirmed to the Board on matters stated in Rule 14A.38 in relation to the above continuing connected transactions. The independent non-executive Directors of the Company have, for the purpose of Rule 14A.37 of the Listing Rules, reviewed the continuing connected transactions and confirmed that each of such continuing connected transactions have been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms, or on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties, in accordance with the terms of the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the period commencing from the Listing Date and ended on 31 December 2008, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

## PRE-EMPTIVE RIGHTS

There are no provisions for the pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## COMPLIANCE ADVISER'S INTERESTS

As updated and notified by the Company's compliance adviser, Cinda International Capital Limited ("Cinda"), as at 31 December 2008, neither Cinda nor any of its directors, employees or associates had any interests in the shares of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

Pursuant to the compliance adviser agreement dated 17 September 2008 entered into with the Company, Cinda received and will receive fees for acting as the Company's compliance adviser for the period commencing on the Listing Date and ending on the date which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial result for the first full financial year after the date of listing.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## CORPORATE GOVERNANCE

The Company has applied the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules. Since its listing on the Stock Exchange, the Compnay has complied with the code provisions of the Code for the year ended 31 December 2008, save for the exception explained in the Corporate Governance Report under the paragraphs headed "Board Meetings and Attendance" and "Chairman and Chief Executive Officer".

## POST BALANCE SHEET EVENT

Details of the post balance sheet event are set out in note 32 to the financial statements.

## AUDITORS

The financial statements for the year ended 31 December 2008 have been audited by the Group's auditors, KPMG (who shall retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting).

On behalf of the Board
**Zhao Yan**
*Chairman*

Hong Kong, 17 April 2009

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules. Since its listing on the Stock Exchange, the Company has complied with the code provisions of the Code for the year ended 31 December 2008, save for the exception explained in this report under the paragraphs headed "Board Meetings and Attendance" and "Chairman and Chief Executive Officer".

## BOARD OF DIRECTORS

The Board currently comprises of six Directors including two executive Directors, one non-executive Director and three independent non-executive Directors:

### Executive Directors:

Ms. Zhao Yan *(Chairman)*
Mr. Guo Jiajun

### Non-Executive Director:

Mr. Cheng Bo

### Independent Non-Executive Directors:

Ms. Zhan Lili
Mr. Zhang Fuping
Mr. Qin Bin

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The management was delegated the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report. All Board members have separate and independent access to the Company's management to fulfil their duties, and upon reasonable request, to seek independent professional advice in appropriate circumstance, at the Company's expenses. All Directors also have access to the Company Secretary who is responsible for ensuring that the Board procedures, and all applicable rules and regulations, are followed. An agenda and accompanying Board/ committee papers are distributed to the Directors/ committee members with reasonable notice in advance of the meetings. Minutes of board meetings and meetings of board committees, which recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the Company Secretary and open for inspection by Directors.

Key information regarding the Directors' academic and professional qualifications and other appointments are set out in the section headed "Biography of Directors and Senior Management" of this report. There is no other relationship among members of the Board.

## BOARD MEETINGS AND ATTENDANCE

Under code provision A.1.1 of the Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. As the Company was listed only since 3 October 2008, during the year ended 31 December 2008, the Board held one regular meeting attended by all board members since its listing and one board meeting which some members had absented. The Board committees, including the Audit Committee, the Nomination Committee and the Remuneration Committee, were convened and held once since the listing of the Company and up to 31 December 2008. The attendance of the Directors at the board meeting is as follows:

| | **Attendance/ Meeting held** |
|---|---|
| Ms. Zhao Yan *(Chairman)* | 1/2 |
| Mr. Guo Jiajun | 2/2 |
| Mr. Cheng Bo | 1/2 |
| Ms. Zhan Lili | 2/2 |
| Mr. Zhang Fuping | 2/2 |
| Mr. Qin Bin | 2/2 |

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent to the Company.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer". This is deviated from the code provision A.2.1.

Ms. Zhao Yan, who acts as the chairman of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility to comply. If compliance is determined, appropriate person will be nominated to the different roles of chairman and chief executive officer.

## APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of one year commencing from 3 October 2008 and may be terminated by either party by giving not less than three months' prior written notice.

Each of the non-executive directors of the Company has entered into a service contract with the Company for a term of one year commencing from 3 October 2008 and may be terminated by either party by giving one month's written notice.

In accordance with Article 87 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

All Directors of the Company will retire from office as directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

## MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company has also adopted the Model Code for the relevant employees.

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the Model Code since listing of the shares of the Company on 3 October 2008 to 31 December 2008. Moreover, no incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

## RESPONSIBILITIES OF DIRECTORS

All newly appointed Directors received comprehensive, formal training on the first occasion of their appointments and were ensured to have a proper understanding of the businesses and development of the Group and that they were fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

To facilitate the Directors to discharge their responsibilities, they are continuously updated with regulatory developments, business and market changes and the strategic development of the Group.

There is no change in the composition of the Board since its listing in October 2008.

## SUPPLY OF AND ACCESS TO INFORMATION

In respect of regular board meeting, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner and at least 3 days before the intended date of a board meeting.

All directors are entitled to have access to board papers, minutes and related materials.

## AUDIT COMMITTEE

The Company established an Audit Committee on 3 September 2008 with written terms of reference in compliance with the code provisions of the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The members of the Audit Committee consist of three independent non-executive Directors, namely Mr. Qin Bin, Ms. Zhan Lili and Mr. Zhang Fuping. Mr. Qin Bin who possesses a professional accounting qualification and relevant accounting experience, is the chairman of the Audit Committee. The Audit Committee shall meet at least twice a year.

The written terms of reference of the Audit Committee adopted by the Board are in line with the code provisions of the Code and are available upon request and on the Group's website.

During the financial year, the Audit Committee has reviewed the Group's internal controls. The Group's final results for the year ended 31 December 2008 have been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee has also reviewed this report, and confirms that it is complete and accurate and complies with the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Audit Committee held one meeting since the Company's listing on 3 October 2008 up to 31 December 2008. The members and attendance of the Audit Committee meeting are as follows:

| | **Attendance/ Meeting held** |
|---|---|
| Mr. Qin Bin *(Chairman)* | 1/1 |
| Ms. Zhan Lili | 1/1 |
| Mr. Zhang Fuping | 1/1 |

## AUDITORS' REMUNERATION

During the year ended 31 December 2008, the fee incurred for audit and non-audit services provided by the auditors for the Group is approximately set out as follows.

| **Type of services** | **Fee paid/ payable** *RMB'000* |
|---|---|
| Professional services rendered in connection with the listing of the Group | 4,080 |
| Non-audit services | — |
| Audit services | 1,006 |
| | 5,086 |

## NOMINATION COMMITTEE

The Company established a Nomination Committee pursuant to a resolution of the Directors passed on 3 September 2008. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and management of Board succession and ensure that the candidates to be nominated as Directors are experienced, high calibre individuals. The Nomination Committee consists of Ms. Zhao Yan, an executive Director and two independent non-executive Directors, namely Mr. Zhang Fuping and Ms. Zhan Lili. Mr. Zhang Fuping is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once every year for reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors of the Company and other related matters.

The Nomination Committee held one meeting since the Company's listing on 3 October 2008 up to 31 December 2008. Details of the attendance of the Nomination Committee meeting are as follows:

| | **Attendance/ Meeting held** |
|---|---|
| Mr. Zhang Fuping *(Chairman)* | 1/1 |
| Ms. Zhan Lili | 1/1 |
| Ms. Zhao Yan | 1/1 |

At the meeting, the Nomination Committee reviewed the structure, size and composition of the Board, assessing the independence of independent non-executive Directors and other related matters of the Company.

## REMUNERATION COMMITTEE

The Company established a Remuneration Committee pursuant to a resolution of the Directors passed on 3 September 2008 in compliance with the code provisions of the Code. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and other senior management. The Remuneration Committee comprises Mr. Guo Jiajun, an executive Director and two independent non-executive Directors, namely Mr. Zhang Fuping and Ms. Zhan Lili. Ms. Zhan Lili is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once every year to discuss remuneration related matters. No executive Director is allowed to be involved in deciding his own remuneration.

The written terms of reference of the Remuneration Committee adopted by the Board are in line with the code provisions of the Code and are available upon request and on the Group's website.

The Remuneration Committee held one meeting since the Company's listing on 3 October 2008 up to 31 December 2008. Details of the attendance of the Remuneration Committee meeting are as follows:

| | **Attendance/ Meeting held** |
|---|---|
| Ms. Zhan Lili *(Chairman)* | 1/1 |
| Mr. Zhang Fuping | 1/1 |
| Mr. Guo Jiajun | 1/1 |

At the meeting, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages and performance of the Directors for the year 2008.

## DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2008. The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2008. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

## INTERNAL CONTROL

The Board has overall responsibility to maintain a sound and effective internal control of the Company to safeguard the shareholders' investments and the Company's assets. The Company will continue to review its internal control function on a regular basis.

The management has conducted a review during the year on the effectiveness of the system of internal control of the Group, covering all material controls including financial, operational, compliance controls and risks management functions with recommendations for improvement. The recommendations have been reviewed by the Audit Committee with the Board. The Board has adopted the recommendations to enhance the Group's system of internal control.

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

The Chairman of the Board and chairman of Audit Committee will make themselves available at the annual general meeting to meet with shareholders. The Company will ensure that there are separate resolutions for separate issues at general meetings.

The forthcoming annual general meeting of the Company will be held on 29 May 2009.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on its business in a timely manner, subject to relevant regulatory requirement.

**Independent Auditor's Report to the Shareholders of**
**Bloomage BioTechnology Corporation Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Bloomage BioTechnology Corporation Limited (the "Company") set out on pages 43 to 103, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 our 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 auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Charter Road
Central, Hong Kong

17 April 2009

# Consolidated Income Statement

*for the year ended 31 December 2008*

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Turnover** | 5 | **116,599** | 91,081 |
| Cost of sales | | **(26,694)** | (18,622) |
| **Gross profit** | | **89,905** | 72,459 |
| Other revenue | 6 | **4,083** | 1,673 |
| Distribution costs | | **(11,546)** | (7,916) |
| Administrative expenses | | **(16,410)** | (11,056) |
| Other operating expenses | | **(895)** | (794) |
| **Profit from operations** | | **65,137** | 54,366 |
| Finance costs | 7(a) | **(10,407)** | (8,832) |
| **Profit before taxation** | 7 | **54,730** | 45,534 |
| Income tax | 8(a) | **(10,883)** | (4,923) |
| **Profit for the year** | | **43,847** | 40,611 |
| **Dividends payable to equity shareholders of the Company attributable for the year** | | | |
| Final dividends proposed after the balance sheet date of HK 3.2 cents per ordinary share (2007: Nil) | 12 | **8,828** | — |
| **Basic and diluted earnings per share (RMB)** | 13 | **0.14** | 0.13 |

The notes on pages 50 to 103 form part of these financial statements.

# Consolidated Balance Sheet

*at 31 December 2008*

| | Note | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment, net | 14 | **81,776** | 55,205 |
| Construction in progress | 15 | **22,744** | 14,109 |
| Intangible assets | 16 | **619** | 306 |
| Lease prepayments | 17 | **12,395** | 12,665 |
| **Total non-current assets** | | **117,534** | 82,285 |
| **Current assets** | | | |
| Inventories | 19 | **7,660** | 10,464 |
| Trade and other receivables | 20 | **18,194** | 18,081 |
| Cash and cash equivalents | 21 | **71,634** | 31,762 |
| **Total current assets** | | **97,488** | 60,307 |
| **Current liabilities** | | | |
| Secured bank loan | 22 | **10,000** | 20,000 |
| Trade and other payables | 23 | **23,434** | 46,287 |
| Current portion of preferred shares | 24 | **6,732** | 6,234 |
| Income tax payable | 25(a) | **2,550** | 2,018 |
| **Total current liabilities** | | **42,716** | 74,539 |
| **Net current assets/(liabilities)** | | **54,772** | (14,232) |
| **Total assets less current liabilities** | | **172,306** | 68,053 |

The notes on pages 50 to 103 form part of these financial statements.

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred income | 26 | **200** | 200 |
| Deferred tax liabilities | 25(b) | **1,601** | — |
| Preferred shares | 24 | **42,996** | 41,492 |
| **Total non-current liabilities** | | **44,797** | 41,692 |
| **Net assets** | | **127,509** | 26,361 |
| **Capital and reserves** | | | |
| Share capital | 27(c) | **2,801** | 400 |
| Reserves | 27(d) | **124,708** | 25,961 |
| **Total equity** | | **127,509** | 26,361 |

Approved and authorised for issue by the board of directors on 17 April 2009.

**Zhao Yan**
*Director*

**Guo Jiajun**
*Director*

The notes on pages 50 to 103 form part of these financial statements.

# Company Balance Sheet

*at 31 December 2008*

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiaries | 18 | **37,315** | — |
| **Total non-current assets** | | **37,315** | — |
| **Current assets** | | | |
| Trade and other receivables | 20 | **19,124** | 337 |
| Cash and cash equivalents | 21 | **38,505** | 27 |
| **Total current assets** | | **57,629** | 364 |
| **Current liabilities** | | | |
| Amounts due to related parties | 23 | **269** | — |
| Amounts due to a subsidiary | 23 | **5,722** | — |
| Accrued expenses and other payables | 23 | **1,211** | — |
| **Total current liabilities** | | **7,202** | — |
| **Net current assets** | | **87,742** | 364 |
| **Capital and reserves** | | | |
| Share capital | 27(c) | **2,801** | 400 |
| Reserves | 27(d) | **84,941** | (36) |
| **Total equity** | | **87,742** | 364 |

Approved and authorised for issue by the board of directors on 17 April 2009.

**Zhao Yan**
*Director*

**Guo Jiajun**
*Director*

The notes on pages 50 to 103 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*for the year ended 31 December 2008*

| | Note | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| **Total equity at 1 January** | | **26,361** | 23,678 |
| **Profit for the year/total recognised income for the year** | | **43,847** | 40,611 |
| **Dividends declared during the year** | | **—** | (37,928) |
| **Movements in equity arising from capital transactions:** | | | |
| Exchange differences on translation of financial statements of foreign operations | 27(d)(iv) | **337** | — |
| Waiver of amounts due to related parties | 27(d)(iii) | **4,725** | — |
| Shares issued by placing and public offer | 27(c)(iii) | **68,367** | — |
| Share issuing expenses | 27(c)(iii) | **(16,128)** | — |
| | | **57,301** | — |
| **Total equity at 31 December** | | **127,509** | 26,361 |

The notes on pages 50 to 103 form part of these financial statements.

# Consolidated Cash Flow Statement

*for the year ended 31 December 2008*

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **54,730** | 45,534 |
| Adjustments for: | | | |
| Amortisation of intangible assets | | **51** | 23 |
| Amortisation of lease prepayments | | **270** | 270 |
| Depreciation | | **4,993** | 4,707 |
| Interest expense on bank borrowings | | **2,171** | 927 |
| Dividends on preferred shares | | **8,236** | 7,905 |
| Interest income | | **(250)** | (285) |
| Net (gain)/loss on disposal of property, plant and equipment | | **(19)** | 11 |
| **Operating profit before changes in working capital** | | **70,182** | 59,092 |
| Decrease in inventories | | **2,804** | 625 |
| Increase in trade and other receivables | | **(3,341)** | (2,435) |
| Increase/(decrease) in trade and other payables | | **748** | (5,228) |
| **Cash generated from operations** | | **70,393** | 52,054 |
| PRC income tax paid | | **(8,750)** | (4,863) |
| Interest received | | **250** | 285 |
| Interest paid on bank borrowings | | **(2,185)** | (890) |
| **Net cash generated from operating activities** | | **59,708** | 46,586 |
| **Investing activities** | | | |
| Payments for purchase of property, plant and equipment, construction in progress and intangible assets | | **(25,472)** | (22,484) |
| Proceeds from disposal of property, plant and equipment | | **115** | 558 |
| **Net cash used in investing activities** | | **(25,357)** | (21,926) |

The notes on pages 50 to 103 form part of these financial statements.

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from shares issued | | **52,239** | — |
| Proceeds from bank borrowings | | **31,000** | 30,000 |
| Repayment of bank borrowings | | **(41,000)** | (10,000) |
| Dividends paid on preferred shares | | **(6,234)** | (5,772) |
| Dividends paid to equity shareholders of the Company | | **(30,351)** | (31,037) |
| **Net cash generated from/(used in) financing activities** | | **5,654** | (16,809) |
| **Net increase in cash and cash equivalents** | | **40,005** | 7,851 |
| **Cash and cash equivalents at beginning of year** | | **31,762** | 23,911 |
| **Effect of foreign exchange rate changes** | | **(133)** | — |
| **Cash and cash equivalents at end of year** | 21 | **71,634** | 31,762 |

The notes on pages 50 to 103 form part of these financial statements.

## 1 GENERAL INFORMATION AND GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 3 April 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The consolidated financial statements of the Company for the year ended 31 December 2008 comprise the Company and its subsidiaries (collectively referred to as the "Group").

The companies comprising the Group underwent reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 10 April 2008, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 19 September 2008. The Company's shares were listed on the Stock Exchange on 3 October 2008.

## 2 BASIS OF PRESENTATION

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from the date of the Reorganisation. Accordingly, the consolidated results of the Group for the years ended 31 December 2007 and 2008 included the results of the Company and its subsidiaries with effect from 1 January 2007 or since their respective dates of incorporation, as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheets at 31 December 2007 and 2008 are a consolidation of the balance sheets of the Company and its subsidiaries at the respective balance sheet dates. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the Directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

## 3 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (a) Statement of compliance *(continued)*

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

These financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. Items included in these financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). The subsidiary carrying out the principal activities of the Group is operating in the People's Republic of China (the "PRC") and its functional currency is RMB.

The measurement basis used in preparation of these financial statements is the historical cost basis.

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

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

Judgments made by management in the application of IFRSs that have significant effect on these financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 34.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 3(g)).

### (d) Property, plant and equipment and construction in progress

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(g)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the balance sheet at cost less impairment losses (see Note 3(g)). Cost comprises the cost of materials, direct labour and an appropriate proportion of production overheads. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (d) Property, plant and equipment and construction in progress *(continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 20 years |
| Plant and machinery | 5-10 years |
| Motor vehicles | 5 years |
| Office equipment and others | 5 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (e) Intangible assets

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 3(g)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| Technology know-how | 10-20 years |
| Software | 2 years |

Both the period and method of amortisation are reviewed annually.

### (f) Lease prepayments

Lease prepayments represent cost of land use rights paid to the government authority. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 3(g)). Amortisation is recognised in income statement on a straight-line basis over the lease period of land use rights.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, an impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Impairment of assets *(continued)*

(i) Impairment of trade and other receivables *(continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in income statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– intangible assets; and

– lease prepayments;

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

– Recognition of impairment losses

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

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

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the period in which the reversals are recognised.

### (h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down of loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 3(g)), except where the receivables are without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### (j) Interest-bearing borrowings

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

### (k) Preferred shares

Preferred shares are classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preferred shares classified as equity are recognised as distributions within equity.

Preferred shares are classified as liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognised in accordance with the Group's policy for interest-bearing borrowings set out in Note 3(j) and accordingly dividends thereon are recognised on an accrual basis in income statement as part of finance costs.

### (l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (n) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

### (o) Income tax

Income tax for the period comprises current and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (o) Income tax *(continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (q) Revenue recognition

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

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in income statement over the useful life of the asset.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the transaction dates. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

### (s) Borrowing costs

Borrowing costs are expensed in income statement in the period in which they are incurred.

### (t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is a member of key management personnel of the Group or the Group's parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates in a single business segment, namely the production and sales of bio-chemical products. Accordingly, no business segment analysis is presented.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no information on segment assets, liabilities and capital expenditure is presented.

## 4 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new Interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Group. However, none of these developments are relevant to the Group's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 35).

## 5 TURNOVER

The principal activities of the Group are the production and sale of bio-chemical products.

Turnover represents the sales value of goods sold, net of value added tax.

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Hyaluronic acid products | **115,332** | 89,049 |
| Heparin products | **484** | 1,290 |
| Others | **783** | 742 |
| | **116,599** | 91,081 |

## 6 OTHER REVENUE

| | Note | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| Government grants | *(a)* | **2,832** | 960 |
| Interest income | | **250** | 285 |
| Processing fee | | **817** | 290 |
| Sale of scrap materials | | **106** | 83 |
| Others | | **78** | 55 |
| | | **4,083** | 1,673 |

### (a) Government grants

The Group accounts for government grants pursuant to the local regulations and notices issued by local government authorities set out as follows:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Jinan High Technology Industry Development Area Administrative Committee *(i)* | **1,000** | 760 |
| National Taxation Bureau of Jinan High Technology Industry Development Area *(ii)* | **730** | — |
| Finance Bureau of Shandong Province *(iii)* | **698** | — |
| Jinan Science and Technology Bureau & Finance Bureau of Jinan city *(iii)* | **104** | 200 |
| Department of Science and Technology of Shandong Province & Finance Bureau of Shandong Province *(iii)* | **300** | — |
| | **2,832** | 960 |

(i) The grant represents an incentive receivable by Shandong Freda Bio-chemicals Co., Ltd. ("Freda Biochem") in relation to the listing of the shares of the Company on the Stock Exchange in 2008 (for the year ended 31 December 2007: an assistance received in relation to the research and development of hyaluronic acid products).

(ii) The grant represents an incentive received in relation to additional investments in Freda Biochem made by Valuerank Holdings Limited ("Valuerank") and Farstar Enterprises Limited ("Farstar") during the years ended 31 December 2005 and 2006.

## 6 OTHER REVENUE *(continued)*

### (a) Government grants *(continued)*

(iii) The grants represent assistances received/receivable by Freda Biochem in relation to the research and development of hyaluronic acid products.

There are no unfulfilled conditions and other contingencies attached to the receipt of these government grants. There is no assurance that the Group will receive government grants in the future in respect of any of the Group's research and development and other activities.

## 7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

### (a) Finance costs

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest expense on bank borrowings wholly repayable within one year | **2,171** | 927 |
| Dividends on preferred shares *(Note 24)* | **8,236** | 7,905 |
| | **10,407** | 8,832 |

### (b) Staff costs

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries, wages and other benefits | **13,372** | 11,610 |
| Contributions to defined contribution retirement plan | **798** | 706 |
| | **14,170** | 12,316 |

## 7 PROFIT BEFORE TAXATION *(continued)*

### (b) Staff costs *(continued)*

Pursuant to the relevant labour rules and regulations in the PRC, Freda Biochem participates in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby Freda Biochem is required to make contributions to the Schemes at 22% of the eligible employees' salaries during the year. The local government authorities are responsible for the entire retirement plan obligation payable to retired employees. For those forfeited contributions under the Schemes, the amounts could not be used by the Group to reduce the existing level of contributions.

The employee of the Company who situated in Hong Kong participates in the Mandatory Provident Fund Scheme, whereby the Company is required to contribute to the scheme at 5% of the employee's basic salaries.

The Group has no other obligation for the payment of pension benefits beyond the contributions described above.

### (c) Other items

| | Note | **2008**<br>***RMB'000*** | 2007<br>*RMB'000* |
|---|---|---|---|
| Amortisation | | | |
| - intangible assets | | **51** | 23 |
| - lease prepayments | | **270** | 270 |
| Auditors' remuneration | | **1,006** | 7 |
| Depreciation | *(i)* | **4,993** | 4,707 |
| Net foreign exchange loss | | **736** | 657 |
| Net (gain)/loss on disposal of property, plant and equipment | | **(19)** | 11 |
| Operating lease charges in respect of leased plant and equipment | | **215** | 168 |
| Research and development costs | *(i)* | **4,042** | 3,287 |

(i) Research and development costs for the year ended 31 December 2008 included RMB3,016,000 (2007: RMB2,735,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately in Note 7(b) or above for each of these types of expenses.

## 8 INCOME TAX

### (a) Taxation in the consolidated income statement represents:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| **Current tax - PRC income tax** | | |
| Provision for the year *(Note 25(a))* | **9,282** | 4,923 |
| **Deferred tax** | | |
| Origination of temporary difference | **1,601** | — |
| | **10,883** | 4,923 |

### (b) Reconciliation between actual tax expense and accounting profit at applicable tax rates:

| | Note | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| Profit before taxation | | 54,730 | 45,534 |
| Expected PRC income tax expense at a statutory tax rate of 25% for the year ended 31 December 2008 (2007: 33%) | *(i)* | **13,683** | 15,026 |
| Tax effect of tax concession | *(ii)* | **(5,473)** | (10,473) |
| Tax effect of non-deductible expenses | *(iii)* | **1,825** | 872 |
| Tax effect of non-taxable income | *(iii)* | **(109)** | — |
| Tax credit relating to domestic equipment purchase | *(iv)* | **(644)** | (502) |
| Effect of withholding tax at 10% on the distributable profits of Freda Biochem (Note 25(a)) | | **1,601** | — |
| Income tax | | **10,883** | 4,923 |

## 8 INCOME TAX *(continued)*

### (b) Reconciliation between actual tax expense and accounting profit at applicable tax rates: *(continued)*

(i) During the year ended 31 December 2007, provision for PRC income tax is based on a statutory rate of 33% of the assessable profit of Freda Biochem.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate in the PRC was reduced from 33% to 25%.

During the year ended 31 December 2008, provision of PRC income tax is based on a statutory rate of 25% of the assessable profit of Freda Biochem.

(ii) Pursuant to the notice "Approval on the identification of Shandong Freda Bio-Chemicals Co., Ltd. as an advanced technology enterprise invested by foreign businesses" [Lu Wai Jing Mao Wai Zi Zi (2005) No. 285] issued by Department of Foreign Trade and Economic Cooperation of Shandong Province, Freda Biochem has satisfied certain conditions in the relevant income tax rules and regulations of the PRC, and therefore is entitled to a concession on PRC income tax of 23%. As a result, the applicable PRC income tax rate of Freda Biochem for the year ended 31 December 2007 is 10%.

Pursuant to the notice [Lu Ke Gao Zi (2009) No.12] issued by Department of Science & Technology of Shandong Province, Finance Bureau of Shandong Province, National Taxation Bureau of Shandong Province and Local Taxation Bureau of Shandong Province on 16 January 2009, Freda Biochem has satisfied certain conditions in the relevant new tax law and was granted the qualification of advanced and new technology enterprise. Freda Biochem is therefore entitled to a concession on PRC income tax of 10% for three years from 1 January 2008 to 31 December 2010. As a result, the applicable PRC income tax rate of Freda Biochem for the year ended 31 December 2008 is 15%.

(iii) The non-deductible expenses primarily represent dividends on the preferred shares and administrative expenses incurred by the Company. The non-taxable income represents the incentive received by Valuerank and Farstar from local government in connection with additional investments (i.e. capitalisation of reserve) in Freda Biochem during the year ended 31 December 2005 and 2006.

## 8 INCOME TAX *(continued)*

### (b) Reconciliation between actual tax expense and accounting profit at applicable tax rates: *(continued)*

(iv) Pursuant to the notice "Approval on tax exemption of Shandong Freda Bio-Chemicals Co., Ltd. for equipment purchased in the PRC" [Ji Guo Shui Gao Kai Han (2007) No.33] issued by the National Taxation Bureau of Jinan High Technology Industry Development Area, and the relevant tax rules and regulations of the PRC, Freda Biochem is granted income tax credit for purchasing qualified domestic equipment.

(v) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year.

## 9 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

| | 2008 | | | | |
|---|---|---|---|---|---|
| | Fees | Basic salaries, allowances and other benefits | Bonus | Contributions to retirement benefits schemes | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| *Chairman* | | | | | |
| Zhao Yan | — | 34 | — | — | 34 |
| *Executive director* | | | | | |
| Guo Jiajun | — | 45 | — | 6 | 51 |
| *Non-executive director* | | | | | |
| Cheng Bo | 23 | — | — | — | 23 |
| *Independent non-executive directors* | | | | | |
| Qin Bin | 18 | — | — | — | 18 |
| Zhan Lili | 18 | — | — | — | 18 |
| Zhang Fuping | — | — | — | — | — |
| | 59 | 79 | — | 6 | 144 |

## 9 DIRECTORS' REMUNERATION *(continued)*

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Fees | Basic salaries, allowances and other benefits | Bonus | Contributions to retirement benefits schemes | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| *Chairman* | | | | | |
| Zhao Yan | — | 24 | — | — | 24 |
| *Executive director* | | | | | |
| Guo Jiajun | — | 24 | — | — | 24 |
| *Non-executive director* | | | | | |
| Cheng Bo | — | 24 | — | — | 24 |
| *Independent non-executive directors* | | | | | |
| Qin Bin | — | — | — | — | — |
| Zhan Lili | — | — | — | — | — |
| Zhang Fuping | — | — | — | — | — |
| | — | 72 | — | — | 72 |

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in Note 10 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year, none of them (2007: none) are directors of the Company. Details of remuneration paid to the five (2007: five) highest paid individuals of the Group are as follows:

| | 2008 | 2007 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Basic salaries, allowances and other emoluments | 1,841 | 995 |
| Bonus | 220 | 374 |
| Contributions to retirement benefit schemes | 96 | 121 |
| | 2,157 | 1,490 |

The emoluments of these individuals are within the following band:

| | 2008 | 2007 |
|---|---|---|
| HKD Nil ~ HKD1,000,000 | 5 | 5 |

## 11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB2,523,000 (2007: RMB26,000) which has been dealt with in the financial statements of the Company.

## 12 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividends proposed after the balance sheet date of HK 3.2 cents per ordinary share (2007: Nil) | **8,828** | — |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## 13 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity shareholders of the Company of RMB43,847,000 (2007: RMB40,611,000) and the ordinary shares in issue of the Company of 312,000,000 as at the balance sheet date as if the shares had been outstanding throughout the year and the prior year.

There were no diluted potential ordinary shares during the years presented and therefore, diluted earnings per share are calculated on the same basis as basic earnings per share.

## 14 PROPERTY, PLANT AND EQUIPMENT, NET

| | The Group | | | | |
|---|---|---|---|---|---|
| | Buildings | Plant and machinery | Motor vehicles | Office equipment and others | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost:** | | | | | |
| At 1 January 2007 | 35,992 | 26,088 | 1,148 | 2,452 | 65,680 |
| Additions | 22 | 448 | — | 126 | 596 |
| Disposals | — | (39) | — | (16) | (55) |
| At 31 December 2007 | 36,014 | 26,497 | 1,148 | 2,562 | 66,221 |
| At 1 January 2008 | 36,014 | 26,497 | 1,148 | 2,562 | 66,221 |
| Additions | 1,181 | 662 | 345 | 150 | 2,338 |
| Transferred from construction in progress (Note 15) | 29,039 | 283 | — | — | 29,322 |
| Disposals | — | (107) | (467) | (174) | (748) |
| At 31 December 2008 | 66,234 | 27,335 | 1,026 | 2,538 | 97,133 |
| **Accumulated depreciation:** | | | | | |
| At 1 January 2007 | 1,624 | 3,473 | 582 | 665 | 6,344 |
| Charge for the year | 1,625 | 2,487 | 176 | 419 | 4,707 |
| Written back on disposals | — | (24) | — | (11) | (35) |
| At 31 December 2007 | 3,249 | 5,936 | 758 | 1,073 | 11,016 |
| At 1 January 2008 | 3,249 | 5,936 | 758 | 1,073 | 11,016 |
| Charge for the year | 2,040 | 2,384 | 178 | 391 | 4,993 |
| Written back on disposals | — | (95) | (411) | (146) | (652) |
| At 31 December 2008 | 5,289 | 8,225 | 525 | 1,318 | 15,357 |
| **Net book value:** | | | | | |
| At 31 December 2007 | 32,765 | 20,561 | 390 | 1,489 | 55,205 |
| At 31 December 2008 | 60,945 | 19,110 | 501 | 1,220 | 81,776 |

## 14 PROPERTY, PLANT AND EQUIPMENT, NET *(continued)*

(i) As at 31 December 2008, property certificates of certain properties of the Group with an aggregate net book value of RMB37,554,000 (2007: RMB8,702,000) are yet to be obtained.

(ii) All the Group's property, plant and equipment are located in the PRC.

## 15 CONSTRUCTION IN PROGRESS

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **14,109** | 699 |
| Additions | **37,957** | 13,410 |
| Transferred to property, plant and equipment (Note 14) | **(29,322)** | — |
| At 31 December | **22,744** | 14,109 |

## 16 INTANGIBLE ASSETS

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| **Cost:** | | |
| At 1 January | **450** | 450 |
| Additions | **364** | — |
| At 31 December | **814** | 450 |
| **Accumulated amortisation:** | | |
| At 1 January | **(144)** | (121) |
| Charge for the year | **(51)** | (23) |
| At 31 December | **(195)** | (144) |
| **Net book value:** | | |
| At 31 December | **619** | 306 |

Intangible assets mainly represent technology know-how acquired by the Group in relation to the production of goods.

## 17 LEASE PREPAYMENTS

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| **Cost:** | | |
| At 1 January/31 December | **13,497** | 13,497 |
| **Accumulated amortisation:** | | |
| At 1 January | **(832)** | (562) |
| Charge for the year | **(270)** | (270) |
| At 31 December | **(1,102)** | (832) |
| **Net book value:** | | |
| At 31 December | **12,395** | 12,665 |

Lease prepayments represent cost of land use right in the PRC and are amortised on a straight-line basis over the lease period of 50 years from 17 December 2004 to 16 December 2054.

## 18 INVESTMENT IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted shares, at cost | **37,315** | — |

Details of the subsidiaries at 31 December 2008 are set out below:

| Name of company | Place and date of incorporation/ establishment | Issued and fully paid up/ registered capital | Effective percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Valuerank | British Virgin Islands ("BVI") 7 January 2005 | United States Dollars ("USD") 1/ USD 50,000 | 100% | — | Investment holding |
| Farstar | BVI 18 March 2005 | USD 100/ USD 50,000 | 100% | — | Investment holding |
| Tactful World Limited ("Tactful") | Hong Kong 18 September 2008 | Hong Kong Dollars ("HKD") 1/ HKD10,000 | — | 100% | Investment holding |
| Fumax Investment Limited | Hong Kong 8 September 2008 | HKD1/ HKD10,000 | — | 100% | Investment holding |
| Freda Biochem (Note i) | PRC 3 January 2000 | RMB58,800,000/ RMB58,800,000 | — | 100% | Production and sale of bio-chemical products |

Note i: Freda Biochem was established on 3 January 2000 as a sino-foreign equity joint venture company. Pursuant to a board resolution dated 30 May 2004, Freda Biochem underwent a restructuring and transformed to a sino-foreign co-operative joint venture company (the "Transformation"). The Transformation was approved by the Government of Shandong Province on 4 September 2004 and revised business licence was obtained by Freda Biochem on 8 October 2004. In connection with the Transformation, the Group acquired the rights to the 25% equity interest in Freda Biochem from its then shareholder by issuing a financial instrument that was presented as a liability in the consolidated financial statements (see Note 24), and accordingly, the Group effectively held 100% equity interest in Freda Biochem.

## 19 INVENTORIES

### (a) Inventories in the consolidated balance sheet comprise:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials and consumables | **2,155** | 1,767 |
| Work in progress | **1,188** | 1,909 |
| Finished goods | **4,317** | 6,788 |
| | **7,660** | 10,464 |

### (b) An analysis of the amount of inventories recognised as an expense is as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories sold | **26,694** | 18,622 |

## 20 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Trade receivables | **9,878** | 9,081 | **—** | — |
| Bills receivable | **2,638** | 3,029 | **—** | — |
| Prepayments and other receivables | **5,670** | 5,971 | **1,444** | — |
| Amounts due from related parties | **8** | — | **—** | 337 |
| Amounts due from a subsidiary | **—** | — | **17,680** | — |
| | **18,194** | 18,081 | **19,124** | 337 |

All of trade and bills receivable of the Group are expected to be recovered within one year.

## 20 TRADE AND OTHER RECEIVABLES *(continued)*

### (a) The ageing analysis of trade receivables is as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Current | **8,485** | 8,193 |
| 1 to 3 months overdue | **1,008** | 723 |
| 3 to 6 months overdue | **271** | 122 |
| 6 months to 1 year overdue | **98** | 33 |
| 1 year overdue | **16** | 10 |
| | **9,878** | 9,081 |

The credit term for trade receivables is generally 30 to 90 days. Further details on the Group's credit policy are set out in Note 29(a).

### (b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see Note 3(g)).

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Group believes that no impairment allowance is necessary as there has not been a significant change in credit quality and these trade and other receivables were considered fully recoverable. The Group has not held any collateral over these balances.

## 21 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Cash at bank and in hand | **71,634** | 31,762 | **38,505** | 27 |

All the Group's cash and bank balances were placed with banks in the PRC or Hong Kong. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

## 22 SECURED BANK LOAN

### (a) The secured bank loan was repayable as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **10,000** | 20,000 |

The secured bank loan as at 31 December 2008 was interest-bearing at a rate of 8.217% per annum (2007: ranging from 6.12% to 7.29%).

### (b) The carrying value of assets secured for banking facilities were as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Buildings | **23,391** | 24,063 |
| Lease prepayments | **12,395** | 12,665 |
| | **35,786** | 36,728 |

The banking facilities of the Group granted by Jinan Branch of Bank of China, amounting to RMB37,000,000 (2007: RMB37,000,000), were utilised to the extent of RMB10,000,000 (2007: RMB20,000,000) as at 31 December 2008.

## 23 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Trade payables | **417** | 627 | **—** | — |
| Payables for construction of plant and purchase of equipment | **16,715** | 4,806 | **—** | — |
| Receipts in advance | **1,282** | 683 | **—** | — |
| Value added tax payable | **289** | 648 | **—** | — |
| Amounts due to related parties | **319** | 36,119 | **269** | — |
| Amounts due to a subsidiary | **—** | — | **5,722** | — |
| Accrued expenses and other payables | **4,412** | 3,404 | **1,211** | — |
| | **23,434** | 46,287 | **7,202** | — |

All of trade and other payables of the Group are expected to be settled within one year or are repayable on demand.

The ageing analysis of trade payables is as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Due within 1 month or on demand | **417** | 627 |

## 24 PREFERRED SHARES

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **47,726** | 45,593 |
| Dividends during the year | **8,236** | 7,905 |
| Payment of dividends of preferred shares | **(6,234)** | (5,772) |
| | **49,728** | 47,726 |
| Less: Current portion of preferred shares | **(6,732)** | (6,234) |
| | **42,996** | 41,492 |

In connection with the Transformation, Valuerank and Farstar acquired the rights to the 25% equity interest in Freda Biochem from the minority shareholder of Freda Biochem, Shandong Freda Pharmaceutical Group Company Limited ("SFP"), by issuing a financial instrument with a preference over the Group in payment of dividends and the distribution of assets upon termination of business in Freda Biochem ("preferred shares") as consideration. Pursuant to the cooperative joint venture agreement signed between the Group and SFP on 30 May 2004 ("CJV"), the preferred shares were redeemable by Valuerank, subject to the consensus of SFP, at RMB2,694,000 as at 1 January 2005, or at any subsequent date on or before the earlier of the termination of business in Freda Biochem or the expiry date of the CJV (i.e. 2 January 2015) with an annual increment of 8%. Dividends for the preferred shares of RMB5,344,000 for the year ended 31 December 2005, and thereafter with an annual increment of 8% until the preferred shares are redeemed, are payable by Freda Biochem to SFP annually. The dividend payments are cumulative and not discretionary. The Transformation was approved by the Government of Shandong Province on 4 September 2004 and business licence was obtained by Freda Biochem on 8 October 2004. The preferred shares were initially recognised as a financial liability at its fair value of RMB38,500,000 as at 8 October 2004, representing 25% of the fair value of Freda Biochem as at 8 October 2004 derived from the present value of the future cash flows expected to be derived from Freda Biochem. The financial liability was measured at amortised cost subsequently. Dividends for the preferred shares are accounted for using the effective interest method and recorded as finance costs in income statement.

## 24 PREFERRED SHARES *(continued)*

Pursuant to a board resolution dated 29 March 2006, with the agreement from SFP, the expiry date of the CJV has been changed. According to the revised arrangement, the preferred shares were redeemable by Valuerank, subject to the consensus of SFP, at any subsequent date on or before the earlier of the termination of business in Freda Biochem or the expiry of the CJV on 2 January 2020, while other terms of the preferred shares remained unchanged. The change of expiry date of the CJV to 2 January 2020 was approved by the Government of Shandong Province on 24 April 2006 and revised business licence was obtained by Freda Biochem on 28 April 2006. There was no significant difference between the carrying amount of preferred shares and the fair value of the preferred shares arising from the change of expiry date to 2 January 2020.

### (a) Amounts due to preferred shareholder

The amounts due to preferred shareholder of the Group is repayable as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Within one year | **6,732** | 6,234 |
| After 1 year but within 5 years | **20,900** | 19,351 |
| After 5 years | **22,096** | 22,141 |
| | **49,728** | 47,726 |

The above repayment schedules were prepared on the basis that the preferred shares would be redeemed on the applicable expiry date of 2 January 2020 of the CJV and included the pre-determined annual dividend payments until the applicable expiry date of the CJV.

## 25 INCOME TAX PAYABLE AND DEFERRED TAX LIABILITIES

### (a) Income tax payable in the consolidated balance sheet represents:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Provision for PRC income tax for the year (Note 8(a)) | **9,282** | 4,923 |
| Balance of PRC income tax relating to prior years | **2,018** | 1,958 |
| PRC income tax paid | **(8,750)** | (4,863) |
| | **2,550** | 2,018 |

### (b) Deferred tax liabilities recognised in the consolidated balance sheet represent:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Distributable profits of Freda Biochem (Note 8(a)) | **1,601** | — |

Under the new tax law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment of a place of business in PRC, will be subject to withholding income tax at the rate of 10% on various types of passive income including dividends derived from sources in the PRC.

On 22 February 2008, the Ministry of Finance and State Administration of Tax approved [Cai Shui Zi (2008) No.1], pursuant to which dividend distributions out of pre-2008 retained earnings of foreign investment enterprises will be exempted from withholding income tax. The Group will therefore be liable to withholding tax on dividends distributed from Freda Biochem in respect of its profits generated after 31 December 2007.

There were no significant unrecognised deferred tax assets or liabilities as at 31 December 2008.

## 26 DEFERRED INCOME

Deferred income represents the unfulfilled conditional government grants received, which will be subsequently recognised as revenue in income statement to compensate the Group for expenses when incurred.

## 27 CAPITAL AND RESERVES

### (a) The Group

| | | Attributable to equity shareholders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Statutory reserve | Other reserve | Translation reserve | Retained earnings | Total |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(d)(i)* | *(d)(ii)* | *(d)(iii)* | *(d)(iv)* | | |
| At 1 January 2007 | | 400 | — | 7,877 | (33,966) | — | 49,367 | 23,678 |
| Profit for the year/ total recognised income for the year | | — | — | — | — | — | 40,611 | 40,611 |
| Appropriation to statutory reserve | | — | — | 4,861 | — | — | (4,861) | — |
| Capitalisation of reserve | | — | — | (12,000) | 12,000 | — | — | — |
| Dividends for year ended 31 December 2006 | | — | — | — | — | — | (37,928) | (37,928) |
| At 31 December 2007 | | 400 | — | 738 | (21,966) | — | 47,189 | 26,361 |
| At 1 January 2008 | | 400 | — | 738 | (21,966) | — | 47,189 | 26,361 |
| Profit for the year/ total recognised income for the year | | — | — | — | — | — | 43,847 | 43,847 |
| Appropriation to statutory reserve | | — | — | 5,007 | — | — | (5,007) | — |
| Shares issued under Reorganisation | (c)(i) | 349 | — | — | (349) | — | — | — |
| Exchange difference on translation of financial statements of foreign operations | | — | — | — | — | 337 | — | 337 |
| Waiver of amounts due to related parties | | — | — | — | 4,725 | — | — | 4,725 |
| Shares issued by placing and public offer | (c)(iii) | 684 | 67,683 | — | — | — | — | 68,367 |
| Share issuing expenses | (c)(iii) | — | (16,128) | — | — | — | — | (16,128) |
| Capitalisation issue | (c)(iv) | 1,368 | (1,368) | — | — | — | — | — |
| Capitalisation of reserve | | — | — | — | 38,800 | — | (38,800) | — |
| At 31 December 2008 | | 2,801 | 50,187 | 5,745 | 21,210 | 337 | 47,229 | 127,509 |

## 27 CAPITAL AND RESERVES *(continued)*

### (b) The Company

| | | Attributable to equity shareholders of the Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Contributed surplus | Translation reserve | Retained earnings | Total |
| | Note | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(d)(i)* | | *(d)(iv)* | | |
| At 1 January 2007 | | 400 | — | — | — | (10) | 390 |
| Loss for the year/ total recognised loss for the year | | — | — | — | — | (26) | (26) |
| At 31 December 2007 | | 400 | — | — | — | (36) | 364 |
| At 1 January 2008 | | 400 | — | — | — | (36) | 364 |
| Loss for the year/ total recognised loss for the year | | — | — | — | — | (2,523) | (2,523) |
| Shares issued under Reorganisation | (i) | 349 | — | 36,966 | — | — | 37,315 |
| Exchange difference on translation of financial statements | | — | — | — | 347 | — | 347 |
| Shares issued by placing and public offer | (c)(iii) | 684 | 67,683 | — | — | — | 68,367 |
| Share issuing expenses | (c)(iii) | — | (16,128) | — | — | — | (16,128) |
| Capitalisation issue | (c)(iv) | 1,368 | (1,368) | — | — | — | — |
| At 31 December 2008 | | 2,801 | 50,187 | 36,966 | 347 | (2,559) | 87,742 |

(i) Contributed surplus represents the excess of fair value of the shares of the Company determined based on the basis of consolidated net assets of Valuerank and Farstar at the date of the acquisition of shares of Valuerank and Farstar by the Company from AIM First Investment Limited ("AFI") and Newgrand Holdings Limited ("Newgrand") over the nominal value of the shares issued by the Company in exchange thereof.

## 27 CAPITAL AND RESERVES *(continued)*

### (c) Share capital

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | No. of shares | HKD'000 | No. of shares | USD'000 |
| Authorised: | | | | |
| Ordinary shares of USD 1 each | — | — | 50,000 | 50 |
| Ordinary shares of HKD0.01 each | 1,000,000,000 | 10,000 | — | — |

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | No. of shares | RMB'000 | No. of shares | RMB'000 |
| Issued and fully paid: | | | | |
| At 1 January | 49,950 | 400 | 49,950 | 400 |
| Shares issued under Reorganisation (Note (i)) | 49,950 | 349 | — | — |
| Conversion of share capital of USD to HKD | | | | |
| – Repurchase and cancellation of shares in USD (Note (ii)) | (99,900) | (749) | — | — |
| – Allotment and issue of shares in HKD (Note (ii)) | 77,922,000 | 749 | — | — |
| Shares issued by placing and public offer (Note (iii)) | 78,000,000 | 684 | — | — |
| Capitalisation issue (Note (iv)) | 156,078,000 | 1,368 | — | — |
| At 31 December | 312,000,000 | 2,801 | 49,950 | 400 |

The Company was incorporated in the Cayman Islands on 3 April 2006 with an authorised share capital of USD 50,000 divided into 50,000 ordinary shares of par value USD 1 each. 1 ordinary share of USD in the Company was allotted and issued to the initial subscriber for cash at par, and such share was subsequently transferred to Newgrand on the same day.

On 3 April 2006, 16,649 shares and 33,300 shares of USD 1 each were allotted and issued for cash at par to Newgrand and AFI respectively.

## 27 CAPITAL AND RESERVES *(continued)*

### (c) Share capital *(continued)*

#### (i) Shares issued under Reorganisation

Pursuant to a written resolution of the equity shareholders of the Company dated on 10 April 2008, the authorised share capital of the Company was increased from 50,000 shares of USD 1 each to 100,000 shares of USD 1 each by the creation of an additional 50,000 shares of USD 1 each.

On 10 April 2008, the Company acquired the entire share capital of Valuerank from AFI. The acquisition was satisfied by the allotment of 33,300 shares of USD 1 each. Upon the completion of the acquisition, Valuerank has become a wholly owned subsidiary of the Company.

On 10 April 2008, the Company acquired the entire share capital of Farstar from Newgrand. The acquisition was satisfied by the allotment of 16,650 shares of USD 1 each. Upon the completion of the acquisition, Farstar has become a wholly owned subsidiary of the Company.

#### (ii) Conversion of share capital from USD to HKD

On 6 June 2008, the authorised share capital of the Company changed from USD 100,000 divided into 100,000 shares of USD 1 each to HKD780,000 divided into 78,000,000 shares of HKD0.01 each.

Pursuant to a board resolution dated on 6 June 2008, 99,900 shares of USD 1 each of the Company were repurchased and cancelled at par and 77,922,000 shares of HKD0.01 each of the Company were allotted and issued to the equity shareholders of the Company in the proportion of their respective then shareholdings in the Company.

#### (iii) Shares issued by placing and public offer

On 3 September 2008, the equity shareholders of the Company resolved to increase the authorised share capital of the Company from HKD780,000 to HKD10,000,000 by the creation of an additional 922,000,000 shares.

On 3 October 2008, 78,000,000 ordinary shares of HKD0.01 each were issued and offered for subscription at a price of HKD1 each upon the listing of the shares of the Company on the Stock Exchange. The proceeds of HKD780,000, representing the par value, were credited to the Company's share capital. The remaining proceeds of approximately HKD77,220,000, after deducting share issuing expenses of HKD18,400,000 (equivalent to RMB16,128,000) were credited to the share premium account.

## 27 CAPITAL AND RESERVES *(continued)*

### (c) Share capital *(continued)*

(iv) Capitalisation issue

Pursuant to the resolutions passed by the equity shareholders of the Company on 3 September 2008, upon the listing of the shares of the Company on the Stock Exchange, an amount of HKD1,560,780 standing to the credit of the share premium account was applied in paying up in full 156,078,000 shares for allotment and issue credited as fully paid to the persons whose names appeared on the register of members of the Company at the close of business on 2 September 2008 in proportion to their then shareholdings in the Company, each ranking pari passu in all respects with the then existing issued shares.

### (d) Nature and purposes of reserves

(i) Share premium

The share premium presents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. Under the Companies Law of Cayman Islands, the share premium account of the Company is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Statutory reserve

In accordance with the articles of association of Freda Biochem, Freda Biochem is required to set up certain statutory reserves, which are non-distributable. The transfers of these reserves are at discretion of the directors of Freda Biochem. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

## 27 CAPITAL AND RESERVES *(continued)*

### (d) Nature and purposes of reserves *(continued)*

(iii) Other reserve

Other reserve as at 31 December 2008 mainly includes:

i) the difference between the historical carrying value of the 25% equity interest right of Freda Biochem held by SFP and the fair value of financial liability initially recognised (see Note 24);

ii) capitalisation of reserve arising from transfer of retained earnings. Pursuant to board resolutions of Freda Biochem passed on 24 August 2005, 23 November 2007 and 12 January 2008, retained earnings/statutory reserve of Freda Biochem in the amount of RMB3,000,000, RMB12,000,000 and RMB38,800,000 was capitalised and transferred to other reserve; and

iii) waiver of amounts due to related parties. On 10 July 2008, AFI and Valuerank entered into an agreement to waive repayment of consideration of acquiring Freda Biochem by Valuerank for an amount of RMB3,150,000. On 25 July 2008, Freda International Inc. and Farstar entered into an agreement to waive repayment of consideration of acquiring Freda Biochem by Farstar for an amount of RMB1,575,000. The waiver of amounts due to AFI and Freda International Inc. of RMB4,725,000 was credited to other reserve of the Group.

(iv) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

## 27 CAPITAL AND RESERVES *(continued)*

### (e) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB84,941,000 (2007: Nil), excluding the share capital as disclosed in Note 27(c). After the balance sheet date, the directors proposed a final dividend of HK 3.2 cents per ordinary share (2007: Nil), amounting to HKD9,984,000 (equivalent to RMB8,827,976) (2007: Nil). This dividend has not been recognised as a liability at the balance sheet date.

### (f) Capital management

The Group's objective of managing capital is to optimise the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, the Group may issue new shares and adjust the capital expenditure plan. The Group monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing long term liability by the total equity and long term liability, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets.

The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and to maintain the debt-to-equity ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 31 December 2008, the debt-to-equity ratio of the Group was 26% (2007: 61%), and the liability-to-asset ratio of the Group was 41% (2007: 82%).

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 28 SEGMENT REPORTING

The analysis of the geographical location of the customers of the Group during the year is as follows:

**Year ended 31 December 2008**

| | PRC | Overseas | | | Consolidated |
|---|---|---|---|---|---|
| | | Asia | Americas | Others | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover | 62,754 | 35,353 | 15,409 | 3,083 | 116,599 |
| Segment result | 53,992 | 22,851 | 9,902 | 1,890 | 88,635 |
| Unallocated income and expenses | | | | | (23,498) |
| Profits from operations | | | | | 65,137 |
| Finance costs | | | | | (10,407) |
| Income tax | | | | | (10,883) |
| Profit for the year | | | | | 43,847 |

Year ended 31 December 2007

| | PRC | Overseas | | | Consolidated |
|---|---|---|---|---|---|
| | | Asia | Americas | Others | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover | 54,065 | 18,665 | 15,777 | 2,574 | 91,081 |
| Segment result | 46,137 | 12,895 | 10,749 | 1,768 | 71,549 |
| Unallocated income and expenses | | | | | (17,183) |
| Profits from operations | | | | | 54,366 |
| Finance costs | | | | | (8,832) |
| Income tax | | | | | (4,923) |
| Profit for the year | | | | | 40,611 |

## 29 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, the Group has a certain concentration of credit risk as 23% (2007: 26%) of the total trade and other receivables was due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any guarantees which would expose the Group to credit risk.

## 29 FINANCIAL INSTRUMENTS *(continued)*

### (b) Liquidity risk

Individual operating entity within the Group is responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's management when the borrowings exceed certain predetermined levels of authority.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

## 29 FINANCIAL INSTRUMENTS *(continued)*

### (b) Liquidity risk *(continued)*

Sensitivity analysis

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

**The Group**

| | As at 31 December 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount *RMB'000* | Total contractual undiscounted cash flow *RMB'000* | Within 1 year or on demand *RMB'000* | More than 1 year but less than 2 years *RMB'000* | More than 2 years but less than 5 years *RMB'000* | More than 5 years *RMB'000* |
| Secured bank loan | 10,000 | 10,452 | 10,452 | — | — | — |
| Trade and other payables | 23,434 | 23,434 | 23,434 | — | — | — |
| Preferred shares | 49,728 | 136,310 | 6,732 | 7,271 | 25,493 | 96,814 |
| | 83,162 | 170,196 | 40,618 | 7,271 | 25,493 | 96,814 |

| | As at 31 December 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Secured bank loan | 20,000 | 20,565 | 20,565 | — | — | — |
| Trade and other payables | 46,287 | 46,287 | 46,287 | — | — | — |
| Preferred shares | 47,726 | 142,544 | 6,234 | 6,732 | 23,605 | 105,973 |
| | 114,013 | 209,396 | 73,086 | 6,732 | 23,605 | 105,973 |

## 29 FINANCIAL INSTRUMENTS *(continued)*

### (b) Liquidity risk *(continued)*

Sensitivity analysis *(continued)*

**The Company**

| | As at 31 December 2008 | | | As at 31 December 2007 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | 7,202 | 7,202 | 7,202 | — | — | — |

### (c) Foreign currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through The People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be based on market supply and demand with reference to a basket of currencies or subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

The Group is exposed to currency risk through sales that are denominated in USD. Depreciation or appreciation of RMB against USD can affect the Group's results. The Group did not hedge its foreign currency exposure during the year.

## 29 FINANCIAL INSTRUMENTS *(continued)*

### (c) Foreign currency risk *(continued)*

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in currency other than the functional currency of the entity to which they related.

**The Group**

| | **2008** | 2007 |
|---|---|---|
| | ***USD'000*** | *USD'000* |
| Cash and cash equivalents | **261** | 910 |
| Trade and other receivables | **365** | 429 |
| Trade and other payables | **(20)** | (63) |
| Net exposure | **606** | 1,276 |

**The Company**

| | **2008** |
|---|---|
| | ***RMB'000*** |
| Trade and other payables | **(6,772)** |

Sensitivity analysis

A 5 percent (2007: 5 percent) strengthening of RMB against USD as at 31 December 2008 would decrease profit for the year ended 31 December 2008 and retained earnings of the Group by the amount of RMB207,000 (2007: RMB466,000). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and all other variables, in particular interest rates, remain constant.

A 5 percent (2007: 5 percent) weakening of RMB against USD as at 31 December 2008 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date.

## 29 FINANCIAL INSTRUMENTS *(continued)*

### (d) Fair values

In respect of cash and cash equivalents, trade and other receivables, bank loans, trade and other payables, the carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

Amounts due to related parties except preferred shares as at 31 December 2008 are interest-free and have no fixed terms of repayments. Given these terms, it is not meaningful to disclose fair values.

The carrying amount of the preferred shares approximates fair value as at 31 December 2008. The estimated fair value amount has been determined by using market information and valuation methodology considered appropriate by the Group. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

## 30 CAPITAL COMMITMENTS

At 31 December 2008, the Group had capital commitments for construction of property, plant and equipment as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Authorised and contracted for | **620** | 23,115 |
| Authorised but not contracted for | **11,700** | — |
| | **12,320** | 23,115 |

## 31 MATERIAL RELATED PARTY TRANSACTIONS

During the year, the directors are of the view that related parties of the Group include the following companies:

| Name of party | Relationship |
| --- | --- |
| AIM First Investments Limited ("AFI") | Equity shareholder of the Company |
| Newgrand Holdings Limited ("Newgrand") | Equity shareholder of the Company |
| Shandong Freda Pharmaceutical Group Company Limited (山東福瑞達醫藥集團公司 "SFP") | Preferred shareholder of Freda Biochem |
| Shandong Biopharmaceuticals Research Institute (山東省生物藥物研究院 "SBRI") | Effectively managed by key management personnel of Freda Biochem |
| Shandong Bausch & Lomb Freda Pharmaceutical Co., Ltd. (山東博士倫福瑞達製藥有限公司 "SB&L") | Effectively managed by key management personnel of Freda Biochem |
| Shandong Freda Bioengineering Co., Ltd. (山東福瑞達生物工程有限公司 "SFB") | Effectively managed by key management personnel of Freda Biochem |
| Beijng Bloomage Holyland Real Estate Development Co., Ltd. (北京華熙新苑房地產開發有限公司 "BBH") | Effectively managed by key management personnel of Freda Biochem |
| Shandong Zhengda Technology Co., Ltd. (山東正達科技有限公司 "SZT") | Effectively managed by key management personnel of Freda Biochem |
| Freda International Inc. | Effectively managed by key management personnel of Freda Biochem |

## 31 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (a) Recurring transactions

Particulars of significant transactions between the Group and the above related parties during the year are as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of hyaluronic acid and heparin products to | | |
| –SB&L | **13,226** | 11,881 |
| –SFB | **—** | 308 |
| –SBRI | **5** | — |
| | **13,231** | 12,189 |
| Processing fee received from SB&L | **817** | 290 |
| Dividends on preferred shares paid to SFP | **6,234** | 5,772 |
| Income from rental of plant receivable from SFB | **8** | — |

In the opinion of the directors of the Company, the above related party transactions were conducted in the ordinary and usual course of business and on normal commercial terms.

## 31 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) Non-recurring transactions

Particulars of significant transactions between the Group and the above related parties during the year are as follows:

| | 2008 | 2007 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Net proceeds received in connection with disposals of machineries to: | | |
| – SB&L | — | 492 |
| – SFB | — | 57 |
| | — | 549 |
| Prepayment of operating expenses and incremental costs directly attributable to the issuing of shares of the Company ("incremental costs") on behalf of the Company by: | | |
| – AFI | 5,006 | — |
| – BBH | 15 | — |
| | 5,021 | — |
| Reimbursement of prepayment of operating expenses and incremental costs to: | | |
| – AFI | 5,006 | — |
| – BBH | 15 | — |
| | 5,021 | — |
| Proceeds from borrowing from SZT | 6,000 | — |
| Repayment of borrowing and payment of interest to SZT | 6,112 | — |
| Purchase of technology know-how from SBRI | 350 | — |

## 31 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) Non-recurring transactions *(continued)*

The directors of the Company are of the opinion that the above related party transactions, excluding sales of machineries, were conducted on normal commercial terms and in the ordinary course of business.

Sales of machineries were carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and on normal commercial terms.

### (c) Balances with related parties:

As at the balance sheet date, the Group had the following balances with related parties:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade and other receivables | | |
| –SFB | **8** | — |
| –SB&L | **2,322** | 3,029 |
| | **2,330** | 3,029 |
| Trade and other payables | | |
| –Newgrand | **—** | 12,567 |
| –Freda International Inc. | **—** | 1,575 |
| –AFI | **269** | 21,977 |
| –SBRI | **50** | — |
| | **319** | 36,119 |
| Preferred shares, including current portion | | |
| –SFP | **49,728** | 47,726 |

## 31 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (d) Key management personnel:

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Basic salaries, allowances and other emoluments | **2,438** | 1,515 |
| Contributions to retirement benefit schemes | **140** | 145 |
| | **2,578** | 1,660 |

Total remuneration is included in "staff costs" (see Note 7(b)).

The Group participates in the defined contribution post-employment benefit plans organised by municipal and provincial governments for its employees. Further details are disclosed in Note 7(b).

## 32 POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2008:

### (a) Reorganisation

Pursuant to a share transfer agreement dated on 16 December 2008 entered into between Valuerank and Tactful, Valuerank transferred its equity interest in Freda Biochem to Tactful for nil consideration.

Pursuant to a share transfer agreement dated on 16 December 2008 entered into between Farstar and Tactful, Farstar transferred its equity interest in Freda Biochem to Tactful for nil consideration.

The change of equity shareholders of Freda Biochem was approved by Department of Foreign Trade and Economic Cooperation of Shandong Province and the Government of Shandong Province on 9 March 2009 and 12 March 2009 respectively.

## 32 POST BALANCE SHEET EVENTS *(continued)*

### (b) Dividends

Pursuant to a board resolution of dated on 17 April 2009, the Company declared dividends of HKD9,984,000 (equivalent to RMB8,827,976) to its equity shareholders. Further details are disclosed in Note 12.

## 33 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company at 31 December 2008 to be AIM First Investments Limited, which is incorporated in British Virgin Islands.

## 34 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing these financial statements. The significant accounting policies are set forth in Note 3. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these financial statements.

**Depreciation**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into the account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

## 35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, IFRS 8, Operating segments, and IAS 1 (revised 2007), Presentation of financial statements, which are effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

# Group Financial Highlights

| | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Results | | | | |
| Turnover | **116,599** | 91,081 | 84,585 | 87,327 |
| Profit from operations | **65,137** | 54,366 | 56,579 | 67,891 |
| Finance costs | **(10,407)** | (8,832) | (7,175) | (5,466) |
| Profit before taxation | **54,730** | 45,534 | 49,404 | 62,425 |
| Income tax | **(10,883)** | (4,923) | (5,754) | (5,434) |
| Profit for the year | **43,847** | 40,611 | 43,650 | 56,991 |
| Basic and diluted earnings per share (RMB) | **0.14** | 0.13 | 0.14 | 0.18 |
| Assets and liabilities | | | | |
| Non-current assets | **117,534** | 82,285 | 73,299 | 74,999 |
| Current assets | **97,488** | 60,307 | 46,631 | 31,414 |
| Current liabilities | **42,716** | 74,539 | 56,431 | 39,907 |
| Total assets less current liabilities | **172,306** | 68,053 | 63,499 | 66,506 |
| Non-current liabilities | **44,797** | 41,692 | 39,821 | 38,418 |
| Net assets | **127,509** | 26,361 | 23,678 | 28,088 |
| Capital and reserves | | | | |
| Share capital | **2,801** | 400 | 400 | — |
| Reserves | **124,708** | 25,961 | 23,278 | 28,088 |
| Total equity | **127,509** | 26,361 | 23,678 | 28,088 |