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

2009
ANNUAL REPORT

Contents

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. Loong Ping Kwan

AUTHORISED REPRESENTATIVES

Mr. Guo Jiajun
Mr. Loong Ping Kwan

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, 22/F
Jardine House
1 Connaught Place
Central
Hong Kong

COMPLIANCE ADVISER

Cinda International Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong kong

AUDITORS

KPMG
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAWS

Loong & Yeung
Suites 2201-2203, 22/F
Jardine House
1 Connaught Place
Central
Hong Kong

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

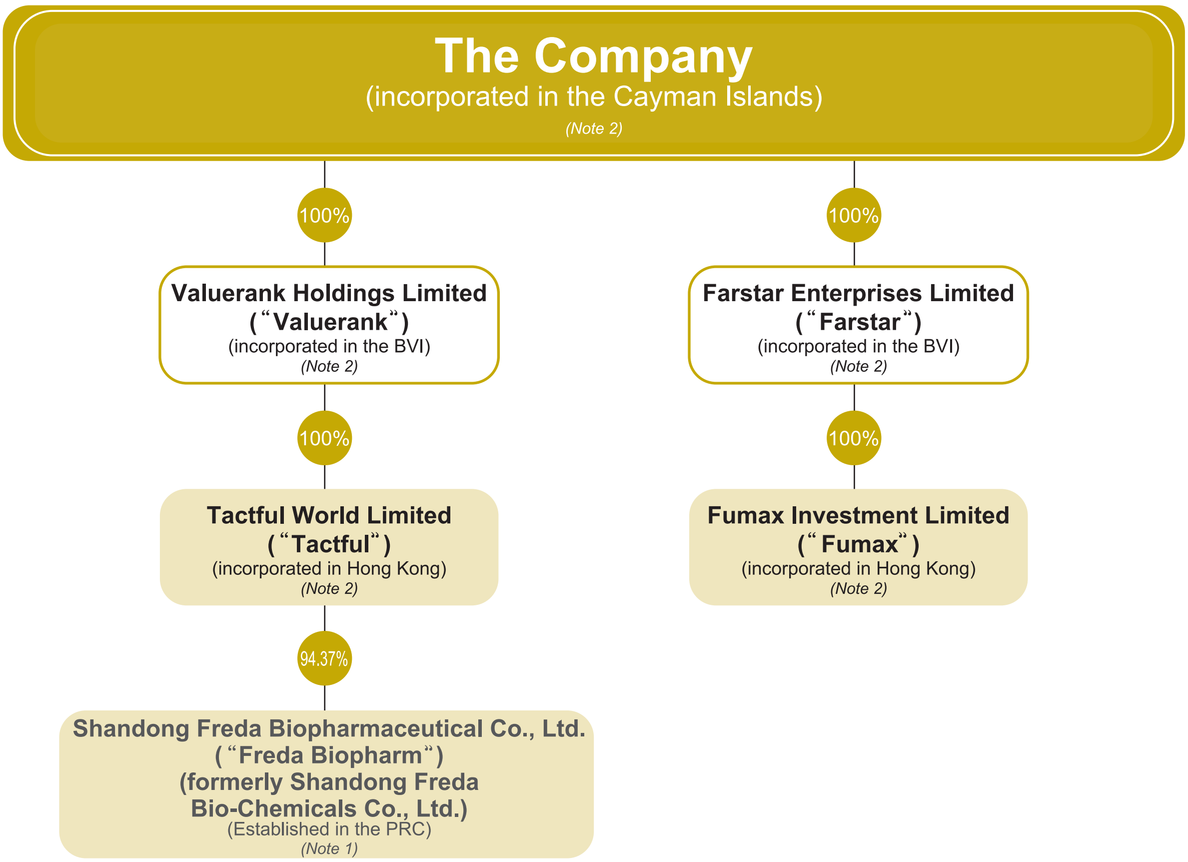
PRINCIPAL BANKERS

Agricultural Bank of China
Jinan Branch of the Bank of China

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 range 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 the 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, namely injection grade, eye drop grade, cosmetic grade and food grade.

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 at increasing the Group's revenue base, the Group will expedite the development of HA end products while maintaining its strong foothold in the cosmetic grade and eye drop grade markets and continue expansion of injection grade and food grade HA markets.

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



Notes:

1. Freda Biopharm is the principal operating subsidiary of the Company. On 5 February 2010, Shandong Freda Bio-Chemicals Co. Ltd changed its registered name to Shandong Freda Biopharmaceutical Co. Ltd.

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

To all Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I would like to present the annual report of the Company for the year ended 31 December 2009. For 2009, the Group's business achieved satisfactory result. The annual turnover amounted to RMB117,190,000, representing a slight increase of 0.5% as compared to 2008 and the profits attributable to shareholders was RMB50,688,000 with a growth of 15.6% as compared to 2008.

FINAL DIVIDEND AND CLOSURE OF REGISTER

The Board has recommended the payment of a final dividend of HK1.8 cents per share for the year ended 31 December 2009 (2008: HK3.2 cents per share). Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 20 May 2010 or any adjourned meeting, the above dividend is expected to be paid on or around 10 June 2010.

The transfer books and register of members of the Company will be closed from 17 May 2010 to 20 May 2010, both days inclusive. During such period, no share transfers will be effected. In order to qualify for the proposed final dividend and attending the forthcoming 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 14 May 2010.

BUSINESS REVIEW

In 2009, the Group registered good progress despite the slowdown of global economy. Net profit for the year amounted to RMB50,688,000, representing an increase of 15.6% as compared to the year of 2008. The increase was primarily attributable to the effective adjustment in the Group's marketing strategy by focusing on the sales in the PRC market and the increase in marketing focus on the sales of high gross margin products.

The global economy was experiencing a slowdown in growth in 2009. The PRC government has taken various proactive fiscal policies and economic stimulus measures to boost domestic demand and stimulate economic growth which have brought a gradual recovery in the domestic market. Riding on these measures, the Group adjusted its marketing strategy to develop the domestic market and the high-end product market. The adjustment in sales mix has resulted in the improvement of the Group's gross margin.

In 2009, the Group had further strengthened its brand image, extended its sales network attracting various new customer, and enhanced and consolidated its leading position in the HA sector.

In 2009, the Group continued to improve its production process by further optimizing and improving production technologies such as HA fermentation and purification, and to implement various measures to promote energy saving and consumption reduction. Through the improvement of various processes for the production of HA, the Group continually enhanced its product quality and reduced production costs, which generated greater economic benefits to the Group.

In 2009, the Group reinforced the research and development efforts of its high-end products and new products, and stepped up the effort in filing of the research results. The Group obtained a national patent for the "production of Sodium Hyaluronate and its salts" in 2009. Furthermore, the Group completed the research of production technique for a soft tissue filler that makes use of cross-linked HA to be used in medical device and established the related ISO13485 quality management system. Preparation is being made for the CE certification of the same. In order to further expand the market, the Group had also engaged in the research and development of another kind of end product of HA - HA gel for orthopaedic and ophthalmologic uses.

As a result of the effective strategy implementation, the Group had sustained a healthy business growth and improved operating result in 2009.

OUTLOOK

Looking ahead, the Group, as a bio-technology enterprise, will continue adhering to the strategic principles of "being a pioneer in technology with focus on the research in refined and advanced technology of HA to pursue a comprehensive and professional path of development in research, production and sales". The Group will continue to maintain and enhance its leading position in the HA manufacturing market. In light of the current social and economic situation in the PRC, i.e. increase in the input and investment in the medical and health services by the PRC government, the aging of population, the acceleration of urbanization, the people's rising awareness of health and healthcare, as well as the improvement of living standard, the Group is in a good position to capitalize on the opportunity available to achieve sustainable growth of the Group's business.

The Group will intensify its efforts on research and development to expand the range of its 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 its pharmaceutical products (injection grade HA), being a high-end product with higher sales price.

The State Council has gradually implemented the RMB4,000 billion investment plan to boost domestic demand to: accelerate the development of medical and health services; speed up self-innovation and structural adjustment; support the industrial development of advance technology and advancement of industrial technology; conduct a comprehensive reform on value added tax in all industries; and encourage the technical improvement of enterprises and 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 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 our gratitude for the continuous support and trust of the shareholders, customers, business partners and bankers and also for the contribution of the management and the staff members.

Zhao Yan

Chairman
9 April 2010

BUSINESS REVIEW

The Group is a leading manufacturer of HA products in the PRC. HA is a natural substance found in many parts of human bodies and animals. It is typically found in the joints, vitreous humor in the eyes, skin, umbilical cord and rooster combs. The HA products of the Group can generally be classified into four grades according to specifications and usages, 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.

As a result of the global financial turmoil which has undermined consumer confidence, the global economy was experiencing a slowdown in growth in 2009. To cope with the the challenge, the PRC government has taken various proactive fiscal policies and economic stimulus measures to boost domestic demand and stimulate economic growth which have brought a gradual recovery in the domestic market. Riding on these measures, the Group took full advantages of the favourable economic environment in the PRC to develop the domestic market and the high-end product market. The Group further strengthened its brand building, extended sales network and enhanced and consolidated its leading position in the HA sector. As a result of the effective strategy implementation, the Group had sustained a healthy business growth and improved operating result in 2009.

The Group's annual turnover amounted to RMB117,190,000 in 2009, representing a slight increase of 0.5% as compared to 2008. The Group's gross profits increased by 6.82% from RMB89,905,000 in 2008 to RMB96,037,000 in 2009 and its distributable profits increased by 15.6% from RMB43,847,000 in 2008 to RMB50,688,000 in 2009. Subject to the approval by the shareholders of the Company (the "Shareholder") at the forthcoming annual general meeting, the Directors recommended the payment of a final dividend of HK1.8 cents per share for the year ended 31 December 2009 (2008: HK3.2 cents per share) to the Shareholders whose names appear on the register of members of the Company on 20 May 2010, amounting to approximately HK$5,616,000 in total.

Strengthen brand promotion and sales expansion

In 2009, the successful listing of the Company in late 2008 provided the Group with an extensive international development platform for the promotion and marketing of the Group's brand and products. With the commencement of operation on the Group's second phase of production base of HA, which was newly-constructed in compliance with the FDA requirements, the Group leveraged the recently acquired qualification of production of food grade Sodium Hyaluronate products and the cutting edge technologies in the HA sector to further strengthen its technological edges and leading position in the HA sector and enhance its brand image in the industry. The Group had been successful in attracting various new customers. Facing the adverse factors amid the global economic recession as well as the development opportunities arising from the economic stimulus measures in the PRC, the Group adjusted its operating strategies and sales mix. In view of the slowdown in sales in overseas market, the Group had made additional efforts to expand the rapidly developing domestic market. While maintaining the market share in overseas market, the Group had also increased its products sales mix of eye drop grade and injection grade HA products which have a higher gross margin.

Production efficiency and costs reduction

In 2009, the Group continued its effort in improving its production process. 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 of manufacturing of 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 to the Group.

R&D enhancement and product expansion

In 2009, the Group continued its effort in R&D enhancement in order to maximize the economic benefits of its existing products and to develop new products. A national patent had been obtained for the "production of Sodium Hyaluronate and its salts". The Group's cosmetic grade, food grade and pharmaceutical HA products were included in the first batch of Jinan City's self-innovative products. Technological research and development has always been the key element of the Group's sustainability. While maintaining an advanced technology standard of HA and further improving the quality of its existing products and production efficiency, the Group also fortified its research and development efforts, enhanced its production skills and expanded its product chains. The Group also reinforced its research and development efforts on its high-end products and new products, and stepped up the effort on filing of the research results. In 2009, the Group completed the research of production technique for a soft tissue filler that makes use of cross-linked HA to be used in medical device, established the related ISO13485 quality management system and preparation was being made for the CE certification of the same. In order to further expand the market, the Group had also engaged in the research and development of another kind of end product of HA — HA gel for orthopaedic and ophthalmologic uses.

BUSINESS OUTLOOK

The Group aims at becoming 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 the research and development of new production technologies, 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 fillers and HA used in orthopaedic and eye treatment. Although the Group has a research and development team led by experienced technical staff, the Group intends to recruit additional research staff in the coming years to further strengthen its research and development capability.

Increase product range of injection grade HA finished products as medical device

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 they are prerequisites for some potential customers of the Group, such as drug manufacturers, that the Group should obtain the relevant certificates for those customers to 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 current injection grade HA products of the Group are only used as raw materials for medical devices or intermediates of raw materials for pharmaceutical products. In order to expand its product range to cover the high end market, the Group plans to manufacture injection grade HA finished products for medical device. The HA finished 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. The Group has obtained the medical device manufacturing enterprise license（醫療器械生產企業許可證）and in the process to obtain the medical device registration certificate（醫療器械註冊證書）. The Group will be able to manufacture injection grade HA finished products for medical device such as soft tissue filler products. The production line for the manufacture of injection grade HA finished products for medical device will commence commercial operation upon the Group's obtaining all the necessary licenses and certificates. According to the relevant laws and regulations, small-scale operation may be conducted through such production line for the purpose of application for the relevant licenses and certificates.

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.

For the expansion of 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 spending 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 production scale and product quality of the Group's products can fulfill the requirements of these markets; the Group's sales team have accumulated extensive experiences on overseas sales; and the Group has already achieved some sales in these markets. The Group will actively participate in the relevant trade 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 establishing and expanding its sales network by selecting local distributors and resellers.

The Group also plans to expand the sales of food grade HA products. 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) for the production and sales of HA as a new source of food. After obtaining the food hygiene permit, the Group can manufacture and sell the food grade HA products for food use, for example, as raw material in oral health supplement. The Group will strengthen the marketing effort to promote its food grade products to customers such as health food manufacturers. Furthermore, the Food Safety Law of the PRC (中華人民共和國食品安全法) had been promulgated and the Implementation Rules of the Food Safety Law of the PRC (中華人民共和國食品安全法實施條例) had also been announced on 20 July 2009 to which the Group will pay close attention. If such law or rules are applicable to the Group, the Group will strictly comply with the requirements of such law, rules and the related auxiliary provisions, and will fulfill the 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.

FINANCIAL REVIEW

Turnover

The Group's turnover for the year 2009 was RMB117.19 million, representing a slight increase of 0.5% or RMB0.591 million as compared to 2008. The slight increase represented the net effect of the increase in sales of injection grade and eye drops grade products and the decrease in turnover in sales of cosmetic and food grade products.

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

	For the year ended 31 December			
	2009		2008	
	RMB'000	**%**	*RMB'000*	%
Injection	**17,296**	**14.8**	15,488	13.3
Eye drop	**16,931**	**14.4**	9,033	7.7
Cosmetic	**69,604**	**59.4**	70,260	60.3
Food	**12,426**	**10.6**	20,551	17.6
Other	**933**	**0.8**	1,267	1.1
Total	**117,190**	**100.0**	116,599	100.0

Cost of sales

Cost of sales for the year ended 31 December 2009 was approximately RMB21.153 million, representing a decrease of approximately 20.8% as compared to approximately RMB26.694 million for 2008. The decrease was mainly attributable to the decrease in the sales volume and the increase in VAT refund rate for export sales during 2009.

Gross profit margin

The Group's gross profit margin for the year 2009 increased to 81.9% from 77.1% in 2008. The increase was mainly due to the change in products sales mix following the adjustment in the the Group's marketing strategy in 2009 and the increase in VAT refund rate for export sales during 2009. The Group had adjusted its products sales mix by focusing on the sales of eye drop grade and injection grade HA products which have a higher gross margin.

Other revenue and income

Other revenue and income of the Group was RMB2.461 million for the year 2009, representing a decrease of about 39.7% from approximately RMB4.083 million for the year 2008. The decrease in other revenue and income was attributable to the decrease in the government grants.

Distribution costs

The Group's distribution costs for the year 2009 were approximately RMB9.794 million, representing a decrease of about 15.2% from approximately RMB11.546 million for the year 2008. The decrease was in line with the decrease in production volume and the decrease in export sales in 2009.

Administrative expenses

The Group's administrative expenses for the year 2009 were approximately RMB19.273 million, representing an increase of about 17.4% from approximately RMB16.410 million for the year 2008. The increase in administrative expenses was mainly due to additional administrative expenses incurred as a result of the successful listing of the Company in October 2008.

Other operating expenses

The Group's other operating expenses for the year 2009 were approximately RMB0.34 million, representing a decrease of about 62.0% from approximately RMB0.895 million for the year 2008. The decrease in other operating expenses for the year 2009 was mainly attributable to the decrease in the exchange loss and bank commission.

Finance costs

The Group's finance costs for the year 2009 were approximately RMB8.996 million, representing a decrease of about 13.6% from approximately RMB10.407 million for the year 2008. The decrease in finance costs was mainly attributable to the decrease in interest expenses on bank borrowings.

Profit for the year

The Group's net profit for the year 2009 was approximately RMB50.688 million, representing an increase of about 15.6% from approximately RMB43.847 million for the year 2008.

Final dividend and closure of register

The Board proposed the payment of a final dividend of HK1.8 cents (2008: HK3.2 cents) per share to the Shareholders whose names appear on the register of members of the Company on 20 May 2010. Subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company, it is expected that the final dividend will be paid on or around 10 June 2010.

The transfer books and the register of members of the Company will be closed from 17 May 2010 to 20 May 2010, both days inclusive. During such period, no share transfers will be effected. In order to qualify for the proposed final dividend and attending the forthcoming 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 14 May 2010.

Liquidity, capital structure and financial resources

As at 31 December 2009, the Group had current assets of approximately RMB131.023 million (2008: RMB97.488 million) and current liabilities of approximately RMB29.126 million (2008: RMB42.716 million). The current ratio of the Group as at 31 December 2009 was approximately 449.8% (2008: 228.2%). The increase in current ratio was due to the increase in cash from operation and decrease in bank borrowings.

As at 31 December 2009, the Group had cash and cash equivalents of approximately RMB95.282 million (31 December 2008: RMB71.634 million) and total liabilities of approximately RMB76.271 million (31 December 2008: RMB87.513 million).

As at 31 December 2009, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 31.1% (31 December 2008: 40.7%). The decrease in gearing ratio as at 31 December 2009 as compared to that as at 31 December 2008 was principally attributable to the increase in total assets resulted from the Group's business operation and the repayment of bank borrowings in 2009.

Net cash generated from operating activities for 2009 was approximately RMB59.443 million.

Net cash outflow to investing activities for 2009 was approximately RMB10.221 million after the offset between the capital expenditure of approximately RMB10.752 million in enhancement of production facilities in various divisions of the Group and the income generated from the disposal of fixed assets of approximately RMB0.531 million.

Net cash outflow from financing activities for 2009 was approximately RMB25.56 million, representing the repayment of bank borrowings of RMB10 million, the payment of interest of preferred shares of RMB6.732 million and the payment of dividend to equity shareholders of approximately RMB8.828 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

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.

Contingent liabilities

As at 31 December 2009, the Group had no contingent liabilities.

Capital commitment

As at 31 December 2009, the capital commitment of Group was approximately RMB19.25 million (2008: RMB12.32 million).

Employee information

As at 31 December 2009, the Group had 220 employees, majority of whom were stationed in the PRC. Total remuneration for 2009 amounted to RMB16.942 million (2008: RMB14.170 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 2009, the Group did not have any charge on its assets.

Significant investment, material acquisitions and disposal of subsidiaries and associated companies

On 28 April 2009, Tactful, an indirect wholly-owned subsidiary of the Company, entered into a capital increase agreement with Freda Biopharm and Shandong Freda Pharmaceutical Group Company Limited ("Freda Pharmaceutical Group"), pursuant to which (i) the registered capital of Freda Biopharm, a non wholly-owned subsidiary of the Company, would be increased from RMB58.8 million to RMB88.8 million; and (ii) the total investment amount of Freda Biopharm would be increased from RMB80 million to RMB180 million. Tactful solely contributed the full amount of the increase in the registered capital. On 19 June 2009, Freda Biopharm has obtained the relevant corporate business licence issued by Business and Administration Bureau of Shandong Province.

Upon completion of the increase in registered capital, the equity interest of Tactful in Freda Biopharm was increased from 91.5% to 94.37% and the equity interest of Freda Pharmaceutical Group in Freda Biopharm was decreased from 8.5% to 5.63%. The increase in registered capital represented an injection of the net proceeds from the share offer of the Company to Freda Biopharm to implement the future plans of the Group. Details of the capital increase agreement are set out in the announcement of the Company dated 28 April 2009.

Saved as disclosed above, during the year ended 31 December 2009, the Group did not have any significant investment, material acquisition and disposal of subsidiaries and associated companies.

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 43, is the Chairman and an executive Director. Ms. Zhao had been a director of Freda Biopharm 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. Ms. Zhao is the director of AIM First Investments Limited ("AFI") and Forever Shining Holdings Limited ("Forever Shining") which hold 58.5% and 3.75% interest in the Company respectively.

Mr. Guo Jiajun (Song), aged 34, is an executive Director and the Chief Executive Officer. 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 Biopharm. He joined the Group in March 2006.

Non-executive Director

Mr. Cheng Bo, aged 49, 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 had 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 from 1991 to December 2009. Mr Cheng was the vice-president of Bausch & Lomb Freda. He has been a director of Freda Biopharm since October 1999. Mr. Cheng is the director of Newgrand Holdings Limited ("Newgrand") which holds 9% interest in the Company.

Independent Non-executive Directors

Ms. Zhan Lili, aged 37, 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 53, 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 Capital Apribusiness Group (北京首都農業集團有限公司) ("formerly 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 42, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

SENIOR MANAGEMENT

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

Ms. Liu Aihua, aged 47, is the general manager of Freda Biopharm. 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 26 years' experience in both of pharmaceutical research and management. She joined the Group in January 2002.

Mr. Wang Chunxi, aged 42, is the vice general manager of Freda Biopharm and the manager of production department of Freda Biopharm. 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 45, is the vice general manager and manager of the research and development department of Freda Biopharm. 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 42, is the chief financial officer of Freda Biopharm, 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 44, is the sales director of Freda Biopharm. 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 39, 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 Biopharm.

Ms. Hu Huaihong, aged 41, is the manager of the finance department of Freda Biopharm. 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.

Company Secretary

Mr. Loong Ping Kwan, aged 45, is the Company Secretary of the Company. Mr. Loong is a practicing solicitor admitted in Hong Kong and is a founder of Messrs. Loong and Yeung in Hong Kong. Mr. Loong gained more than 20 years working experience in corporate finance, merger and acquisition. Mr. Loong is an independent non-executive director of Minmetals Resources Limited, whose shares are listed on the Main board of the Stock Exchange. He joined the Group in May 2009.

The Directors herein present to the shareholders the audited financial statements of the Company for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were investment holding and those of the subsidiaries are set out in note 16 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 2009 are set out in the consolidated statement of comprehensive income 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 HK1.8 cents for the year ended 31 December 2009 to shareholders whose names appear on the register of members of the Company on 20 May 2010, amounting to approximately HK$5,616,000 in aggregate.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from 17 May 2010 to 20 May 2010, both days inclusive. During such period, no share transfers will be effected. In order to qualify for the proposed final dividend and attending the forthcoming 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 14 May 2010.

GROUP FINANCIAL SUMMARY

The summary of the results of the Group for the five years ended 31 December 2009 and the assets and liabilities of the Group as at 31 December, 2005, 2006, 2007, 2008 and 2009 are set out on page 108.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 25(c) to the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 25 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 8 and 9 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 2009, net proceeds were utilised as follows:

	HK$'000
Constructing the new production line for the manufacture of eye drop and injection grade HA products	11,594
Constructing the new production line for the manufacture of finished injection grade HA products which would be used as medical device	466
Improving research and development capability	3,562
Promotion and expansion of the Group's distribution network	4,765
Total	20,387

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director 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 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

Each of Mr. Guo Jiajun and Mr. Cheng Bo 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 two year commencing from 3 October 2009. 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 two year commencing on 3 October 2009. Each of the non-executive Directors (including the independent non-executive Directors) and the Company may terminate the appointment at any time during the 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 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 2009, 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 of the Company

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 3 October 2008, 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 2009, 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 2009, 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 held	Number of Shares	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 2009, 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 Yan, Mr. Cheng Bo and Mr. Ling Peixue in three deeds of non-competition respectively entered into by Ms. Zhao, Mr. Cheng and Mr. Ling, all dated 3 September 2008 (an extract of the material terms of such undertakings had been set out in the prospectus of the Company dated 19 September 2008). Ms. Zhao, Mr. Cheng and Mr. Ling 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 2009, 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 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 14.3% and 32.6% respectively of the Group's turnover while the Group's purchase from the largest and five largest suppliers accounted for approximately 12.0% and 42.5% 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 Yan, Mr. Cheng Bo and Mr. Ling Peixue, a director of Freda Biopharm). 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 Biopharm and Freda Bioengineering on 25 December 2008 ("the Lease"), Freda Biopharm 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. Both parties also entered into a property management service agreement regarding the same leased properties on 29 June 2009 pursuant to which Freda Biopharm renders property services to Freda Bioengineering for a term from 1 January 2009 to 31 December 2011. The annual management service fee is RMB49,113. The transaction under the Lease and the related management services constitute continuing connected transactions for the Company. However, as the annual consideration of the said transactions is less than HK$1 million, they are de minimis transactions 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 2009, the sales to Freda Bioengineering amounted to approximately RMB308,000, RMBnil and RMB32,000 respectively, representing approximately 0.3%, nil and 0.03% of the Group's total turnover respectively. The sales to Freda Bioengineering during the past three years were 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 year 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 of the Listing Rules.

(3) The Directors consider that those material related party transactions disclosed in note 29 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 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 year ended on 31 December 2009, 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 2009, 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 to the Listing Rules. The Company had complied with the code provisions of the Code during the year ended 31 December 2009, save for the exception explained in the Corporate Governance Report under the paragraphs headed " Chairman and Chief Executive Officer".

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set out in note 30 to the financial statements.

AUDITORS

The financial statements for the year ended 31 December 2009 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, 9 April 2010

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the code provisions set out in the Code contained in Appendix 14 to the Listing Rules. The Company had complied with the code provisions of the Code during the year ended 31 December 2009, save for the exception explained in this report under the paragraphs headed " 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. During the year ended 31 December 2009, the Board held eight meetings and the individual attendance of the Directors at the board meetings is as follows:

	Attendance/ Meeting held
Ms. Zhao Yan (Chairman)	8/8
Mr. Guo Jiajun	8/8
Mr. Cheng Bo	5/8
Ms. Zhan Lili	5/8
Mr. Zhang Fuping	4/8
Mr. Qin Bin	5/8

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 did not have any officer with the title of "chief executive officer" for the period from the listing of the Company on 3 October 2008 to 2 November 2009 (the "Relevant Period"). This was deviated from the code provision A.2.1.

During the Relevant Period, Ms. Zhao Yan, who acted as the chairman of the Company, was also responsible for overseeing the general operations of the Group. The Board would meet regularly to consider major matters affecting the operations of the Company. The Board considered that this structure would 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 believed that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company complied with the code provision A.2.1 on 3 November 2009 when Mr. Guo Jiajun, an executive Director was appointed as the chief executive officer of the Company.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial term of two year commencing from 3 October 2009 and may be terminated by either party by giving not less than three months' prior written notice.

Each of the non-executive Directors (including independent non-executive Directors) has entered into a service contract with the Company for a term of two year commencing from 3 October 2009 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.

Each of Mr. Guo Jiajun and Mr. Chang Bo 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 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 for the year ended 31 December 2009. 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 during the year 2009.

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 primary duties of the Audit Committee of the Company ("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 2009, the Audit Committee has reviewed the Group's internal controls. The Group's final results for the year ended 31 December 2009 had 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 two meeting during the year ended 31 December 2009. The members and attendance of the Audit Committee meeting are as follows:

	Attendance/ Meeting held
Mr. Qin Bin (Chairman)	2/2
Ms. Zhan Lili	2/2
Mr. Zhang Fuping	2/2

AUDITORS' REMUNERATION

During the year ended 31 December 2009, 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	**2009** **RMB'000**	2008 RMB'000
Professional services rendered in connection with the listing of the Group	**—**	4,080
Non-audit services	**—**	—
Audit services	**823**	1,006
	823	5,086

NOMINATION COMMITTEE

The primary duties of the Nomination Committee of the Company (the "Nomination Committee") are to make recommendations to the Board on the appointment of Directors and management of the Board's 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 during the year ended 31 December 2009. 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 primary duties of the Remuneration Committee of the Company (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/her 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 during the year ended 31 December 2009. 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 2009.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2009. The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2009. 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 20 May 2010.

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 107, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, 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 misstatement, 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 the auditor's 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 audit 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 2009 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

9 April 2010

	Note	2009 RMB'000	2008 RMB'000
Turnover	4	**117,190**	116,599
Cost of sales		**(21,153)**	(26,694)
Gross profit		**96,037**	89,905
Other revenue	5	**2,461**	4,083
Distribution costs		**(9,794)**	(11,546)
Administrative expenses		**(19,273)**	(16,410)
Other operating expenses		**(340)**	(895)
Profit from operations		**69,091**	65,137
Finance costs	6(a)	**(8,996)**	(10,407)
Profit before taxation	6	**60,095**	54,730
Income tax	7(a)	**(9,407)**	(10,883)
Profit for the year		**50,688**	43,847
Other comprehensive income for the year			
Exchange differences on translation of financial statements of foreign operations		**(45)**	337
Total comprehensive income for the year		**50,643**	44,184
Basic and diluted earnings per share (RMB)	11	**0.16**	0.14

The notes on pages 50 to 107 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment, net	12	**101,262**	81,776
Construction in progress	13	**630**	22,744
Intangible assets	14	**555**	619
Lease prepayments	15	**12,125**	12,395
Total non-current assets		**114,572**	117,534
Current assets			
Inventories	17	**12,627**	7,660
Trade and other receivables	18	**23,114**	18,194
Cash and cash equivalents	19	**95,282**	71,634
Total current assets		**131,023**	97,488
Current liabilities			
Secured bank loan	20	**—**	10,000
Trade and other payables	21	**19,171**	23,434
Current portion of preferred shares	22	**7,271**	6,732
Income tax payable	23(a)	**2,684**	2,550
Total current liabilities		**29,126**	42,716
Net current assets		**101,897**	54,772
Total assets less current liabilities		**216,469**	172,306

The notes on pages 50 to 107 form part of these financial statements.

	Note	2009 RMB'000	2008 RMB'000
Non-current liabilities			
Deferred income	24	**1,805**	200
Deferred tax liabilities	23(b)	**1,081**	1,601
Preferred shares	22	**44,259**	42,996
Total non-current liabilities		**47,145**	44,797
Net assets		**169,324**	127,509
Capital and reserves			
Share capital	25(c)	**2,801**	2,801
Reserves	25(d)	**166,523**	124,708
Total equity		**169,324**	127,509

Approved and authorised for issue by the board of directors on 9 April 2010.

Zhao Yan
Director

Guo Jiajun
Director

The notes on pages 50 to 107 form part of these financial statements.

Balance Sheet

at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Investments in subsidiaries	16	**37,315**	37,315
Total non-current assets		**37,315**	37,315
Current assets			
Trade and other receivables	18	**48,060**	19,124
Cash and cash equivalents	19	**2,200**	38,505
Total current assets		**50,260**	57,629
Current liabilities			
Amounts due to related parties	21	**—**	269
Amount due to a subsidiary	21	**1,515**	5,722
Accrued expenses and other payables	21	**704**	1,211
Total current liabilities		**2,219**	7,202
Net current assets		**48,041**	50,427
Net assets		**85,356**	87,742
Capital and reserves			
Share capital	25(a)	**2,801**	2,801
Reserves	25(a)	**82,555**	84,941
Total equity		**85,356**	87,742

Approved and authorised for issue by the board of directors on 9 April 2010.

Zhao Yan
Director

Guo Jiajun
Director

The notes on pages 50 to 107 form part of these financial statements.

	Note	Share capital *RMB'000*	Share premium *RMB'000* *25(d)(i)*	Statutory reserve *RMB'000* *25(d)(ii)*	Other reserve *RMB'000* *25(d)(iii)*	Exchange reserve *RMB'000* *25(d)(iv)*	Retained earnings *RMB'000*	Total *RMB'000*
		Attributable to equity shareholders of the Company						
Balance at 1 January 2008		400	—	738	(21,966)	—	47,189	26,361
Changes in equity for 2008:								
Total comprehensive income for the year		—	—	—	—	337	43,847	44,184
Appropriation to statutory reserve		—	—	5,007	—	—	(5,007)	—
Shares issued under Reorganisation	25(c)(i)	349	—	—	(349)	—	—	—
Capitalisation of reserve		—	—	—	38,800	—	(38,800)	—
Waiver of amounts due to related parties		—	—	—	4,725	—	—	4,725
Shares issued by placing and public offer	25(c)(iii)	684	67,683	—	—	—	—	68,367
Share issuing expenses	25(c)(iii)	—	(16,128)	—	—	—	—	(16,128)
Capitalisation issue	25(c)(iv)	1,368	(1,368)	—	—	—	—	—
Balance at 31 December 2008		2,801	50,187	5,745	21,210	337	47,229	127,509

The notes on pages 50 to 107 form part of these financial statements.

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2009

	Note	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
		Attributable to equity shareholders of the Company						
			25(d)(i)	25(d)(ii)	25(d)(iii)	25(d)(iv)		
Balance at 1 January 2009		2,801	50,187	5,745	21,210	337	47,229	127,509
Changes in equity for 2009:								
Total comprehensive income for the year		—	—	—	—	(45)	50,688	50,643
Appropriation to statutory reserve		—	—	5,196	—	—	(5,196)	—
Dividends for the year ended 31 December 2008	25(b)	—	—	—	—	—	(8,828)	(8,828)
Balance at 31 December 2009		**2,801**	**50,187**	**10,941**	**21,210**	**292**	**83,893**	**169,324**

The notes on pages 50 to 107 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Cash generated from operations	19(b)	**69,577**	70,393
PRC income tax paid		**(9,793)**	(8,750)
Interest received		**154**	250
Interest paid on bank borrowings		**(495)**	(2,185)
Net cash generated from operating activities		**59,443**	59,708
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress and intangible assets		**(10,752)**	(25,472)
Proceeds from disposal of property, plant and equipment		**531**	115
Net cash used in investing activities		**(10,221)**	(25,357)
Financing activities			
Proceeds from shares issued		**—**	52,239
Proceeds from bank borrowings		**—**	31,000
Repayment of bank borrowings		**(10,000)**	(41,000)
Dividends paid on preferred shares		**(6,732)**	(6,234)
Dividends paid to equity shareholders of the Company		**(8,828)**	(30,351)
Net cash (used in)/generated from financing activities		**(25,560)**	5,654
Net increase in cash and cash equivalents		**23,662**	40,005
Cash and cash equivalents at 1 January		**71,634**	31,762
Effect of foreign exchange rate changes		**(14)**	(133)
Cash and cash equivalents at 31 December	19(a)	**95,282**	71,634

The notes on pages 50 to 107 form part of these financial statements.

1 CORPORATE 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. Its principal subsidiary, Freda Biopharm (formerly Shandong Freda Bio-Chemicals Co., Ltd.), is established in the PRC principally engaging in the manufacture and sale of hyaluronic acid products. The consolidated financial statements of the Company for the year ended 31 December 2009 comprise the Company and its subsidiaries.

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.

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. The consolidated financial statements have been prepared as if the current group structure had been in existence throughout the two years presented, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated 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 consolidated 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.

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 3 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 consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements

These consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. Items included in the 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 functional currency of the Company's subsidiary in the PRC is RMB.

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

The preparation of these consolidated 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 consolidated financial statements and major sources of estimation uncertainty are discussed in Note 32.

(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 2(g)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 2(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 2(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 profit or loss on the date of retirement or disposal.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 2(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 2(g)). Amortisation is recognised in profit or loss on a straight-line basis over the lease period of land use rights.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

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

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 profit or loss. 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.

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 profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

(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 fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows 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).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

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

— 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 profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(g)(i) and (ii)).

(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.

2 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 2(g)), except where the receivables are interest-free loan made to related parties 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 profit or loss 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 2(j) and accordingly dividends thereon are recognised on an accrual basis in profit or loss 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.

2 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 profit or loss 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 year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, 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.

2 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 profit or loss 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 attaching to them. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis as revenue in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(iii) Rental income from operating lease

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

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

(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 profit or loss.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Translation of foreign currencies *(continued)*

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

For the purposes of these consolidated 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued one new IFRS, a number of amendments to IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, Operating segments
- IAS 1 (revised 2007), Presentation of financial statements
- Amendments to IFRS 7, Financial instruments: Disclosure - improving disclosures about financial instruments
- Amendments to IAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
- IAS 23 (revised 2007), Borrowing costs

The impact of these developments is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. IFRS 8 has no material impact on the presentation of segment information of the Group as the Group's chief operating maker manages the Group based on geographical location of the customers, which is consistent with the segment information presented in prior year (see Note 26).

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The amendments to IFRS 7 requires the financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. As no financial instruments of the Group for which the carrying value is measured at fair value, the amendments to IFRS 7 has no material impact on the Group's financial statements.

- The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

- Starting from 1 January 2009, the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the prospective adoption of IAS 23 (revised 2007) in accordance with the transitional provisions of such standard; comparative figures have not been restated. The change in accounting policy had no material impact on assets, profit or earnings per share for the year ended 31 December 2009.

4 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.

	2009	2008
	RMB'000	*RMB'000*
Hyaluronic acid products	**116,257**	115,332
Heparin products	**455**	484
Others	**478**	783
	117,190	116,599

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2009 revenues from sales of hyaluronic acid products to this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately RMB 18,702,000 (2008: RMB 14,287,000) and arose in both domestic sales and overseas sales. Details of concentrations of credit risk arising from the largest customer and the five largest customers are set out in Note 27(a).

5 OTHER REVENUE

		2009	2008
	Note	*RMB'000*	*RMB'000*
Government grants	(a)	**1,261**	2,832
Interest income		**154**	250
Processing fee		**—**	817
Rental and related property management service income		**836**	14
Sale of scrap materials		**50**	106
Others		**160**	64
		2,461	4,083

5 OTHER REVENUE *(continued)*

(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:

	2009 **RMB'000**	2008 RMB'000
Jinan High-tech Industrial Development Zone Administrative Committee (i)	**—**	1,000
Finance Bureau of Jinan High-tech Industrial Development Zone (iii)	**123**	—
National Taxation Bureau of Jinan High-tech Industrial Development Zone (ii)	**—**	730
Finance Bureau of Shandong Province (iii)	**295**	698
Jinan Science & Technology Bureau & Finance Bureau of Jinan City (iii)	**—**	104
Science & Technology Economy Development Bureau of Jinan High-tech Industrial Development Zone (iii)	**843**	—
Department of Science & Technology of Shandong Province & Finance Bureau of Shandong Province (iii)	**—**	300
	1,261	2,832

(i) The grant represents an incentive received by Freda Biopharm in relation to the listing of the shares of the Company on the Stock Exchange in 2008.

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

(iii) The grants represent assistances received/receivable by Freda Biopharm in relation to the research and development of hyaluronic acid products and construction of related sewage purification facilities.

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.

6 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2009 RMB'000	2008 RMB'000
Interest expense on bank borrowings wholly repayable within one year	**472**	2,171
Less: interest expense capitalised into construction in progress*	**(10)**	—
Dividends on preferred shares (Note 22)	**8,534**	8,236
	8,996	10,407

* *The borrowing costs have been capitalised at a rate of 8.217% per annum (2008: Nil).*

(b) Staff costs

	2009 RMB'000	2008 RMB'000
Salaries, wages and other benefits	**15,678**	13,372
Contributions to defined contribution retirement plan	**1,264**	798
	16,942	14,170

Pursuant to the relevant labour rules and regulations in the PRC, Freda Biopharm participates in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby Freda Biopharm 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 employees' basic salaries.

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

6 PROFIT BEFORE TAXATION *(continued)*

(c) Other items

	Note	2009 RMB'000	2008 RMB'000
Amortisation			
– intangible assets		**64**	51
– lease prepayments		**270**	270
Auditors' remuneration		**823**	1,006
Depreciation		**7,355**	4,993
Net foreign exchange loss		**145**	736
Net gain on disposal of property, plant and equipment		**(197)**	(19)
Rental and related management service income		**(836)**	(14)
Operating lease charges in respect of leased plant and equipment		**189**	215
Research and development costs	(i)	**4,376**	4,042

(i) Research and development costs for the year ended 31 December 2009 included RMB 3,584,670 (2008: RMB 3,016,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately in Note 6(b) or above for each of these types of expenses.

7 INCOME TAX

(a) Taxation in the consolidated statement of comprehensive income represents:

	2009 RMB'000	2008 RMB'000
Current tax – PRC income tax		
Provision for the year (Note 23(a))	**9,927**	9,282
Deferred tax		
Origination and reversal of temporary difference	**(520)**	1,601
	9,407	10,883

7 INCOME TAX *(continued)*

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

	Note	2009 RMB'000	2008 RMB'000
Profit before taxation		**60,095**	54,730
PRC income tax expense at a statutory tax rate of 25%	(i)	**15,024**	13,683
Tax effect of tax concession	(ii)	**(6,010)**	(5,473)
Tax effect of non-deductible expenses	(iii)	**1,780**	1,825
Tax effect of non-taxable income	(iii)	**—**	(109)
Tax credit relating to domestic equipment purchase	(iv)	**(1,667)**	(644)
Effect of withholding tax at 10% on the distributable profits of Freda Biopharm (Note 23(b))	(v)/(vi)	**1,081**	1,601
Effect of withholding tax resulting from a change in tax rate	(vi)	**(801)**	—
Income tax		**9,407**	10,883

(i) Provision for PRC income tax is based on a statutory rate of 25%.

(ii) Pursuant to the "Advanced and New Technology Enterprise Certificate" (No. GR200837000125) issued to Freda Biopharm and 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 5 December 2008 and 16 January 2009 respectively, Freda Biopharm has satisfied certain conditions in the Corporate Income Tax Law of the PRC with effect on 1 January 2008 ("the new tax law") and was granted the qualification of advanced and new technology enterprise. Freda Biopharm 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 Biopharm for the year ended 31 December 2009 is 15%.

7 INCOME TAX *(continued)*

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

(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 Biopharm during the year ended 31 December 2005 and 2006.

(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-tech Industrial Development Zone, and the relevant tax rules and regulations of the PRC, Freda Biopharm was granted income tax credit for qualified domestic equipment purchased in 2007.

(v) Pursuant to 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 the PRC, are subject to withholding income tax at the rate of 10% (unless reduced by treaty) on various types of passive income including dividends derived from sources in the PRC.

(vi) According to the requirements of the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income", a Hong Kong company will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong company holds 25% of equity interests or more of the Chinese company directly.

Freda Biopharm is directly held by Tactful World Limited ("Tactful"), a Hong Kong incorporated company. Accordingly, the dividends for the year ended 31 December 2008 paid by Freda Biopharm to Tactful was approved by the National Taxation Bureau of Jinan High-tech Industrial Development Zone with applicable withholding tax rate of 5% in May 2009.

Pursuant to the notice "Interpretation and Determination of Beneficial Owner Under Tax Treaties" [Guo Shui Han (2009) No. 601] issued by the State Administration of Taxation of 27 October 2009, it is a requirement under tax treaties concluded between PRC and other jurisdictions that the recipient of dividend, interest and royalty income must be the beneficial owner of such income to enjoy reduced rates of withholding tax on such income paid from the PRC. The beneficial owner should carry out substantially business activities and own or have control over the income, rights or assets which give rise to such income. Specifically, agents and conduit companies will not be regarded as the beneficial owner of such income.

7 INCOME TAX *(continued)*

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

The principal activity of Tactful is investment holding and dividends declared for the year ended 31 December 2009 are subject to withholding income tax at the rate of 10%.

(vii) 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.

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2009				
	Fees	Basic salaries, allowances and other benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman					
Zhao Yan	—	132	—	—	132
Executive director					
Guo Jiajun	—	183	—	15	198
Non-executive director					
Cheng Bo	88	—	—	—	88
Independent non-executive directors					
Qin Bin	70	—	—	—	70
Zhan Lili	70	—	—	—	70
Zhang Fuping	—	—	—	—	—
	228	315	—	15	558

8 DIRECTORS' REMUNERATION *(continued)*

	2008				
	Fees *RMB'000*	Basic salaries, allowances and other benefits *RMB'000*	Bonus *RMB'000*	Contributions to retirement benefit schemes *RMB'000*	Total *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

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 9 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.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year, none of them (2008: none) are directors of the Company. Details of remuneration paid to the five (2008: five) highest paid individuals of the Group are as follows:

	2009	2008
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	**1,405**	1,841
Bonus	**800**	220
Contributions to retirement benefit schemes	**106**	96
	2,311	2,157

The emoluments of these individuals are within the following band:

	2009	2008
HKD Nil ~ HKD 1,000,000	**5**	5

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB 2,337,000 (2008: loss of RMB 2,523,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit/(loss) for the year:

	2009	2008
	RMB'000	*RMB'000*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(2,337)**	(2,523)
Final dividends from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**8,828**	—
Company's profit/(loss) for the year (Note 25(a))	**6,491**	(2,523)

Details of dividends paid and payable to equity shareholders of the Company are set out in Note 25(b).

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2009 of RMB 50,688,000 (2008: RMB 43,847,000) and the ordinary shares in issue during the year ended 31 December 2009 of 312,000,000 shares (During the year ended 31 December 2008: as if the 312,000,000 ordinary shares had been outstanding throughout the year).

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

12 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 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 13)	29,039	283	—	—	29,322
Disposals	—	(107)	(467)	(174)	(748)
At 31 December 2008	66,234	27,335	1,026	2,538	97,133
At 1 January 2009	66,234	27,335	1,026	2,538	97,133
Additions	1,885	1,354	469	385	4,093
Transferred from construction in progress (Note 13)	519	22,465	—	98	23,082
Disposals	—	(586)	—	(117)	(703)
Reclassification	(207)	151	—	56	—
At 31 December 2009	68,431	50,719	1,495	2,960	123,605
Accumulated depreciation:					
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 disposal	—	(95)	(411)	(146)	(652)
At 31 December 2008	5,289	8,225	525	1,318	15,357

12 PROPERTY, PLANT AND EQUIPMENT, NET *(continued)*

	The Group				
	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	5,289	8,225	525	1,318	15,357
Charge for the year	2,982	3,782	168	423	7,355
Written back on disposal	—	(285)	—	(84)	(369)
Reclassification	(28)	23	—	5	—
At 31 December 2009	8,243	11,745	693	1,662	22,343
Net book value:					
At 31 December 2008	60,945	19,110	501	1,220	81,776
At 31 December 2009	60,188	38,974	802	1,298	101,262

(a) All the Group's property, plant and equipment are located in the PRC. As at 31 December 2009, property certificates of certain properties of the Group with an aggregate net book value of RMB 616,000 (2008: RMB 37,554,000) are yet to be obtained. Management expects that the related certificates will be obtained within 1 year.

(b) Buildings and plant leased out under operating leases

The Group leases out part of buildings and plant to certain related parties (see Note 29(a)) under operating leases. The leases run for an initial period of three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. In view of the part of buildings and plant being leased out is insignificant, such buildings and plant has been accounted as property, plant and equipment in the consolidated financial statements.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2009	2008
	RMB'000	*RMB'000*
Within 1 year	**836**	836
After 1 year but within 5 years	**822**	1,658
	1,658	2,494

13 CONSTRUCTION IN PROGRESS

	The Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**22,744**	14,109
Additions	**968**	37,957
Transferred to property, plant and equipment (Note 12)	**(23,082)**	(29,322)
At 31 December	**630**	22,744

14 INTANGIBLE ASSETS

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Cost:		
At 1 January	**814**	450
Additions	**—**	364
At 31 December	**814**	814
Accumulated amortisation:		
At 1 January	**(195)**	(144)
Charge for the year	**(64)**	(51)
At 31 December	**(259)**	(195)
Net book value:		
At 31 December	**555**	619

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

15 LEASE PREPAYMENTS

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Cost:		
At 1 January/31 December	**13,497**	13,497
Accumulated amortisation:		
At 1 January	**(1,102)**	(832)
Charge for the year	**(270)**	(270)
At 31 December	**(1,372)**	(1,102)
Net book value:		
At 31 December	**12,125**	12,395

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.

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2009	2008
	RMB'000	*RMB'000*
Unlisted shares, at cost	**37,315**	37,315

Details of the subsidiaries at 31 December 2009 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	Hong Kong 18 September 2008	Hong Kong Dollars ("HKD") 1/ HKD 10,000	—	100%	Investment holding
Fumax Investment Limited	Hong Kong 8 September 2008	HKD 1/ HKD 10,000	—	100%	Investment holding
Freda Biopharm (Note i)	PRC 3 January 2000	RMB 88,800,000/ RMB 88,800,000	—	100%	Production and sale of bio-chemical products

Note i: Freda Biopharm was established on 3 January 2000 as a sino-foreign equity joint venture company. Pursuant to a board resolution dated 30 May 2004, Freda Biopharm 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 Biopharm on 8 October 2004. In connection with the Transformation, the Group acquired the rights to the 25% equity interest in Freda Biopharm from its joint venture partner by issuing a financial instrument that was presented as a liability in the consolidated financial statements (see Note 22), and accordingly, the Group effectively held 100% equity interest in Freda Biopharm.

17 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Raw materials and consumables	**2,503**	2,155
Work in progress	**1,869**	1,188
Finished goods	**8,255**	4,317
	12,627	7,660

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**21,153**	26,694

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**12,890**	9,878	**—**	—
Bills receivable	**6,971**	2,638	**—**	—
Prepayments and other receivables	**3,218**	5,664	**193**	1,444
Other receivables due from related parties	**35**	14	**—**	—
Amount due from a subsidiary	**—**	—	**47,867**	17,680
	23,114	18,194	**48,060**	19,124

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

18 TRADE AND OTHER RECEIVABLES *(continued)*

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

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Current	**11,655**	8,485
1 to 3 months overdue	**1,150**	1,008
3 to 6 months overdue	**85**	271
6 months to 1 year overdue	**—**	98
Over 1 year overdue	**—**	16
	12,890	9,878

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 27(a).

As at 31 December 2009, the Group has no impairment losses on trade and other receivables (as at 31 December 2008: nil).

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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.

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**95,282**	71,634	**2,200**	38,505

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.

(b) Reconciliation of profit before taxation to cash generated from operations:

	2009	2008
	RMB'000	*RMB'000*
Profit before taxation	**60,095**	54,730
Adjustments for:		
Amortisation of intangible assets	**64**	51
Amortisation of lease prepayments	**270**	270
Depreciation	**7,355**	4,993
Interest expense on bank borrowings	**462**	2,171
Dividends on preferred shares	**8,534**	8,236
Interest income	**(154)**	(250)
Net gain on disposal of property, plant and equipment	**(197)**	(19)
Changes in working capital:		
(Increase)/decrease in inventories	**(4,967)**	2,804
Increase in trade and other receivables	**(5,165)**	(3,341)
Increase in trade and other payables	**3,280**	748
Cash generated from operations	**69,577**	70,393

20 SECURED BANK LOAN

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

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Within 1 year	—	10,000

The secured bank loan as at 31 December 2008 was interest-bearing at rate of 8.217% per annum, which was repaid on 21 June 2009.

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

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Buildings	—	23,391
Lease prepayments	—	12,395
	—	35,786

The banking facility of the Group granted by Jinan Branch of Bank of China, amounting to RMB 37,000,000 was expired on 30 October 2009. There was no banking facility granted to the Group as at 31 December 2009.

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**948**	417	**—**	—
Payables for construction of plant and purchase of equipment	**10,770**	16,715	**—**	—
Receipts in advance	**837**	1,282	**—**	—
Value added tax payable	**568**	289	**—**	—
Other payables due to related parties	**50**	319	**—**	269
Amount due to a subsidiary	**—**	—	**1,515**	5,722
Accrued expenses and other payables	**5,998**	4,412	**704**	1,211
	19,171	23,434	**2,219**	7,202

All of the 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	
	2009	2008
	RMB'000	*RMB'000*
Due within 1 month or on demand	**948**	417

22 PREFERRED SHARES

	The Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**49,728**	47,726
Dividends during the year	**8,534**	8,236
Payment of dividends of preferred shares	**(6,732)**	(6,234)
	51,530	49,728
Less: current portion of preferred shares	**(7,271)**	(6,732)
	44,259	42,996

In connection with the Transformation, Valuerank and Farstar acquired the rights to the 25% equity interest in Freda Biopharm from the minority owner of Freda Biopharm, Shandong Freda Pharmaceutical Group Company Limited ("SFP"), by issuing a financial instrument with a preference over the Group in payment of dividends and redemption of the financial instrument upon termination of business in Freda Biopharm ("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 RMB 2,694,000 as at 1 January 2005, or at any subsequent date on or before the earlier of the termination of business in Freda Biopharm or the expiry date of the CJV (i.e. 2 January 2015) with an annual increment of 8%. Dividends for the preferred shares of RMB 5,344,000 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 Biopharm 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 Biopharm on 8 October 2004. The preferred shares were initially recognised as a financial liability at its fair value of RMB 38,500,000 as at 8 October 2004, representing 25% of the fair value of Freda Biopharm as at 8 October 2004 derived from the present value of the future cash flows expected to be derived from Freda Biopharm. 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 statement of comprehensive income.

22 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 Biopharm 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 Biopharm 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) Amount due to preferred shareholder

The present value of the amount due to preferred shareholder of the Group is repayable as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Within one year	**7,271**	6,732
After 1 year but within 5 years	**26,892**	20,900
After 5 years	**17,367**	22,096
	51,530	49,728

The above payment schedule has been 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.

23 INCOME TAX PAYABLE AND DEFERRED TAX LIABILITIES

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

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Balance of PRC income tax relating to prior years	**2,550**	2,018
Provision for PRC income tax for the year (Note 7(a))	**9,927**	9,282
PRC income tax paid	**(9,793)**	(8,750)
	2,684	2,550

(b) Deferred tax liabilities recognised/not recognised:

Deferred tax liabilities as at 31 December 2009 and 31 December 2008 relate to the withholding tax as described in Notes 7(b)(v) and (vi) at the rate of 10% on the dividends declared by Freda Biopharm to its overseas holding company, Tactful, which are to be distributed in the foreseeable future. The deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**1,601**	—
Charged to profit or loss	**1,081**	1,601
Reversal upon distribution of dividends	**(1,601)**	—
At 31 December	**1,081**	1,601

As at 31 December 2009, temporary differences relating to the undistributed profits of Freda Biopharm amounted to RMB 72,000,000 (2008: RMB 40,000,000). Deferred tax liabilities of RMB 6,119,000 (2008: RMB 2,399,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of Freda Biopharm and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

(c) Deferred tax assets not recognised:

There were no significant unrecognised deferred tax assets as at 31 December 2009.

24 DEFERRED INCOME

Deferred income represents the unfulfilled conditional government grants received, which will be subsequently recognised as revenue in statement of comprehensive income to compensate the Group for expenses when incurred, and the unrecognised government grants relating to compensating the Group for the cost of assets.

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company	Note	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
		Attributable to equity shareholders of the Company					
		25(c)	25d(i)	(i) below	25d(iv)		
Balance at 1 January 2008		400	—	—	—	(36)	364
Changes in equity for 2008:							
Total comprehensive income for the year		—	—	—	347	(2,523)	(2,176)
Shares issued under Reorganisation	25(c)(i)	349	—	36,966	—	—	37,315
Shares issued by placing and public offer	25(c)(iii)	684	67,683	—	—	—	68,367
Share issuing expenses	25(c)(iii)	—	(16,128)	—	—	—	(16,128)
Capitalisation issue	25(c)(iv)	1,368	(1,368)	—	—	—	—
Balance at 31 December 2008 and 1 January 2009		2,801	50,187	36,966	347	(2,559)	87,742
Changes in equity for 2009:							
Total comprehensive income for the year		—	—	—	(49)	6,491	6,442
Dividends for the year ended 31 December 2008		—	—	—	—	(8,828)	(8,828)
Balance at 31 December 2009		**2,801**	**50,187**	**36,966**	**298**	**(4,896)**	**85,356**

(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 as at 10 April 2008, 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. Under the Companies Law of Cayman Islands, the contributed surplus account of the Company is distributable to the equity shareholders of the Company.

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

	2009 RMB'000	2008 RMB'000
Final dividends proposed after the balance sheet date of HK 1.8 cents per ordinary share (2008: HK 3.2 cents per ordinary share)	4,938	8,828

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

(c) Share capital

	2009		2008	
	No. of shares	HKD'000	No. of shares	HKD'000
Authorised:				
Ordinary shares of HKD 0.01 each	1,000,000,000	10,000	1,000,000,000	10,000

	2009		2008	
	No. of shares	RMB'000	No. of shares	RMB'000
Issued and fully paid:				
At 1 January	312,000,000	2,801	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	312,000,000	2,801

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

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.

(i) Shares issued under Reorganisation

Pursuant to a written resolution of the equity shareholders of the Company dated 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 became 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 became 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 HKD 780,000 divided into 78,000,000 shares of HKD 0.01 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 HKD 0.01 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.

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

(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 HKD 780,000 to HKD 10,000,000 by the creation of an additional 922,000,000 shares.

On 3 October 2008, 78,000,000 ordinary shares of HKD 0.01 each were issued and offered for subscription at a price of HKD 1 each upon the listing of the shares of the Company on the Stock Exchange. The proceeds of HKD 780,000, representing the par value, were credited to the Company's share capital. The remaining proceeds of approximately HKD 77,220,000, after deducting share issuing expenses of HKD 18,400,000 (equivalent to RMB 16,128,000) were credited to the share premium account.

(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 HKD 1,560,780 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.

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(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 Biopharm, Freda Biopharm 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 Biopharm. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iii) Other reserve

Other reserve as at 31 December 2009 mainly includes:

i) the difference between the historical carrying value of the 25% equity interest right of Freda Biopharm held by SFP and the fair value of financial liability initially recognised (see Note 22);

ii) capitalisation of reserve arising from transfer of retained earnings. Pursuant to board resolutions of Freda Biopharm passed on 24 August 2005, 23 November 2007 and 12 January 2008, retained earnings/statutory reserve of Freda Biopharm in the amount of RMB 3,000,000, RMB 12,000,000 and RMB 38,800,000 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 Biopharm by Valuerank for an amount of RMB 3,150,000. On 25 July 2008, Freda International Inc. and Farstar entered into an agreement to waive repayment of consideration of acquiring Freda Biopharm by Farstar for an amount of RMB 1,575,000. The waiver of amounts due to AFI and Freda International Inc. of RMB 4,725,000 was credited to other reserve of the Group.

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

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

(iv) Exchange reserve

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

(e) Distributability of reserves

At 31 December 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB 82,555,000 (2008: RMB 84,941,000), excluding the share capital as disclosed in Note 25(c). After the balance sheet date, the directors proposed a final dividend of HK 1.8 cents per ordinary share (2008: HK 3.2 cents per ordinary share), amounting to HKD 5,616,000 (equivalent to RMB 4,938,000) (2008: HKD 9,984,000). 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 2009, the debt-to-equity ratio of the Group was 22% (2008: 26%), and the liability-to-asset ratio of the Group was 31% (2008: 41%).

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.

26 SEGMENT REPORTING

In accordance with IFRS 8, segment information disclosed in the financial statements was prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments.

The Group has presented two reportable segments for the year ended 31 December 2009, namely domestic customers and overseas customers, for which business are derived from the production and sale of bio-chemical products.

In presenting information on the reportable segments, segment revenue is based on the geographical location of customers. The measure used for reporting segment profit is "gross profit" after deducting transportation expenses incurred. 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. As a result, the adoption of IFRS 8 makes no material impact on presentation of segment information of the Group.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2009 and the reconciliation of reportable segment revenues and profit or loss are set out below.

	Year ended 31 December 2009				
	Domestic	Overseas			Consolidated
		Asia	Americas	Others	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	81,872	19,958	11,715	3,645	117,190
Segment results	70,472	14,336	7,863	2,456	95,127
Unallocated income and expenses					(26,036)
Profit from operations					69,091
Finance costs					(8,996)
Income tax					(9,407)
Profit for the year					50,688

26 SEGMENT REPORTING *(continued)*

	Year ended 31 December 2008				
	Domestic	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 results	53,992	22,851	9,902	1,890	88,635
Unallocated income and expenses					(23,498)
Profit from operations					65,137
Finance costs					(10,407)
Income tax					(10,883)
Profit for the year					43,847

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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 exposures 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, 28% (2008: 13%) and 37% (2008: 23%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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.

(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.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(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 2009					
	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*
Trade and other payables	19,171	19,171	19,171	—	—	—
Preferred shares	51,530	129,578	7,271	7,853	27,532	86,922
	70,701	148,749	26,442	7,853	27,532	86,922

	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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

Sensitivity analysis *(continued)*

The Company

	As at 31 December 2009			As at 31 December 2008		
	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	**2,219**	**2,219**	**2,219**	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.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(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

	2009	2008
	USD'000	*USD'000*
Cash and cash equivalents	**228**	261
Trade and other receivables	**373**	365
Trade and other payables	**(2)**	(20)
Net exposure	**599**	606

Sensitivity analysis

A 5 percent (2008: 5 percent) strengthening of RMB against USD as at 31 December 2009 would decrease profit for the year ended 31 December 2009 and retained earnings of the Group by the amount of RMB 205,000 (2008: RMB 207,000). 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 (2008: 5 percent) weakening of RMB against USD as at 31 December 2009 would have had the equal but opposite effect on the above currency to the amount 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.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(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 consolidated financial instruments.

Amounts due to related parties except preferred shares as at 31 December 2009 are interest-free and have no fixed terms of repayments. Given these terms, it is not meaningful to disclose fair values.

The estimated fair value amount of preferred shares 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 estimate of fair value. Accordingly, the estimate presented herein is not necessarily indicative of the amount 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 amount. Due to the limitation of developing estimate, the fair value amount of preferred shares cannot be measured reliably, and therefore the fair value information of preferred shares as at 31 December 2009 has not been disclosed.

28 CAPITAL COMMITMENTS

At 31 December 2009, the Group had capital commitments for construction of property, plant and equipment as follows:

	2009	2008
	RMB'000	*RMB'000*
Authorised and contracted for	**4,474**	620
Authorised but not contracted for	**14,776**	11,700
	19,250	12,320

29 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 Biopharm
Shandong Biopharmaceuticals Research Institute（山東省生物藥物研究院 "SBRI"）	Effectively managed by key management personnel of Freda Biopharm
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 Biopharm
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 Biopharm
Shandong VIP Freda Pharmaceutical Co., Ltd.（山東明仁福瑞達製藥有限公司 "SVFP"）	Effectively managed by key management personnel of Freda Biopharm
Beijing 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 Biopharm
Shandong Zhengda Technology Co., Ltd.（山東正達科技有限公司 "SZT"）	Effectively managed by key management personnel of Freda Biopharm
Shangdong Freda Medical Devices Co., Ltd.（山東福瑞達醫療器械有限公司 "SFMD"）	Effectively managed by key management personnel of Freda Biopharm

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with related parties

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

	2009 RMB'000	2008 RMB'000
Sales of hyaluronic acid and heparin products to		
– SB&L	**16,807**	13,226
– SFP	**31**	—
– SFB	**32**	—
– SBRI	**24**	5
– SVFP	**5**	—
	16,899	13,231
Processing fee received from SB&L	**—**	817
Dividends on preferred shares paid to SFP	**6,732**	6,234
Income from rental of plant and related property management service from		
– SFB	**467**	8
– SFMD	**369**	6
	836	14
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

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with related parties *(continued)*

	2009	2008
	RMB'000	*RMB'000*
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

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.

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Balances with related parties:

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

	2009	2008
	RMB'000	RMB'000
Trade and other receivables		
– SFB	437	8
– SFMD	14	6
– SB&L	6,571	2,322
	7,022	2,336
Trade and other payables		
– AFI	—	269
– SBRI	50	50
	50	319
Preferred shares, including current portion		
– SFP	51,530	49,728

(c) Key management personnel remuneration:

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2009	2008
	RMB'000	RMB'000
Basic salaries, allowances and other emoluments	3,385	2,438
Contributions to retirement benefit schemes	175	140
	3,560	2,578

Total remuneration is included in "staff costs" (see Note 6(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 6(b).

30 POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2009:

(a) Dividends

Pursuant to a board resolution dated on 9 April 2010, the Company declared dividends of HKD 5,616,000 (equivalent to RMB 4,938,000) to its equity shareholders. Further details are disclosed in Note 25(b).

31 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company at 31 December 2009 to be AIM First Investments Limited, which is incorporated in British Virgin Islands.

32 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 consolidated 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 consolidated financial statements. The significant accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these consolidated financial statements.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(a) Impairment for non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of assets". The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(b) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(c) 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.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

Up to the date of these consolidated 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 2009 and which have not been adopted in these consolidated financial statements.

	Effective for accounting period beginning on or after
Improvements to IFRSs 2008	1 July 2009
Revised IFRS 1, First-time adoption of International Financial Reporting Standards	1 July 2009
Revised IFRS 3, Business combinations	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
Amended IAS 27, Consolidated and separate financial statements	1 July 2009
Amended to IAS 39, Financial instruments: Recognition and measurement - Eligible hedged items	1 July 2009
IFRIC 17, Distributions of non-cash assets to owners	1 July 2009
Improvements to IFRSs 2009	1 July 2009 or 1 January 2010
Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards - Additional Exemptions for first-time adopters	1 January 2010
Amendments to IFRS 2, Share-based payment - Group cash-settled share-based payment transactions	1 January 2010
Amendment to IAS 32, Financial instruments: Presentation - Classification of rights issues	1 February 2010
IFRIC 19, Extinguishing financial liabilities with equity instruments	1 July 2010

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

(continued)

Amendments to IFRIC 14, IAS 19, The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement	1 January 2011
Revised IAS 24, Related party disclosures	1 January 2011
IFRS 9, Financial instruments	1 January 2013

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. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

34 COMPARATIVE FIGURES

As a result of the application of IAS 1 (revised 2007), Presentation of financial statements, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in Note 3.

	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Results					
Turnover	**117,190**	116,599	91,081	84,585	87,327
Profit from operations	**69,091**	65,137	54,366	56,579	67,891
Finance costs	**(8,996)**	(10,407)	(8,832)	(7,175)	(5,466)
Profit before taxation	**60,095**	54,730	45,534	49,404	62,425
Income tax	**(9,407)**	(10,883)	(4,923)	(5,754)	(5,434)
Profit for the year	**50,688**	43,847	40,611	43,650	56,991
Basic and diluted earnings per share (RMB)	**0.16**	0.14	0.13	0.14	0.18
Assets and liabilities					
Non-current assets	**114,572**	117,534	82,285	73,299	74,999
Current assets	**131,023**	97,488	60,307	46,631	31,414
Current liabilities	**29,126**	42,716	74,539	56,431	39,907
Total assets less current liabilities	**216,469**	172,306	68,053	63,499	66,506
Non-current liabilities	**47,145**	44,797	41,692	39,821	38,418
Net assets	**169,324**	127,509	26,361	23,678	28,088
Capital and reserves					
Share capital	**2,801**	2,801	400	400	—
Reserves	**166,523**	124,708	25,961	23,278	28,088
Total equity	**169,324**	127,509	26,361	23,678	28,088