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

ANNUAL REPORT 2010

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Corporate Information

EXECUTIVE DIRECTORS

Ms. Zhao Yan *(Chairman)*
Mr. Guo Jiajun *(Chief Executive Officer)*

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 2001-2005, 20/F
Jardine House
1 Connaught Place
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 2001-2005, 20/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

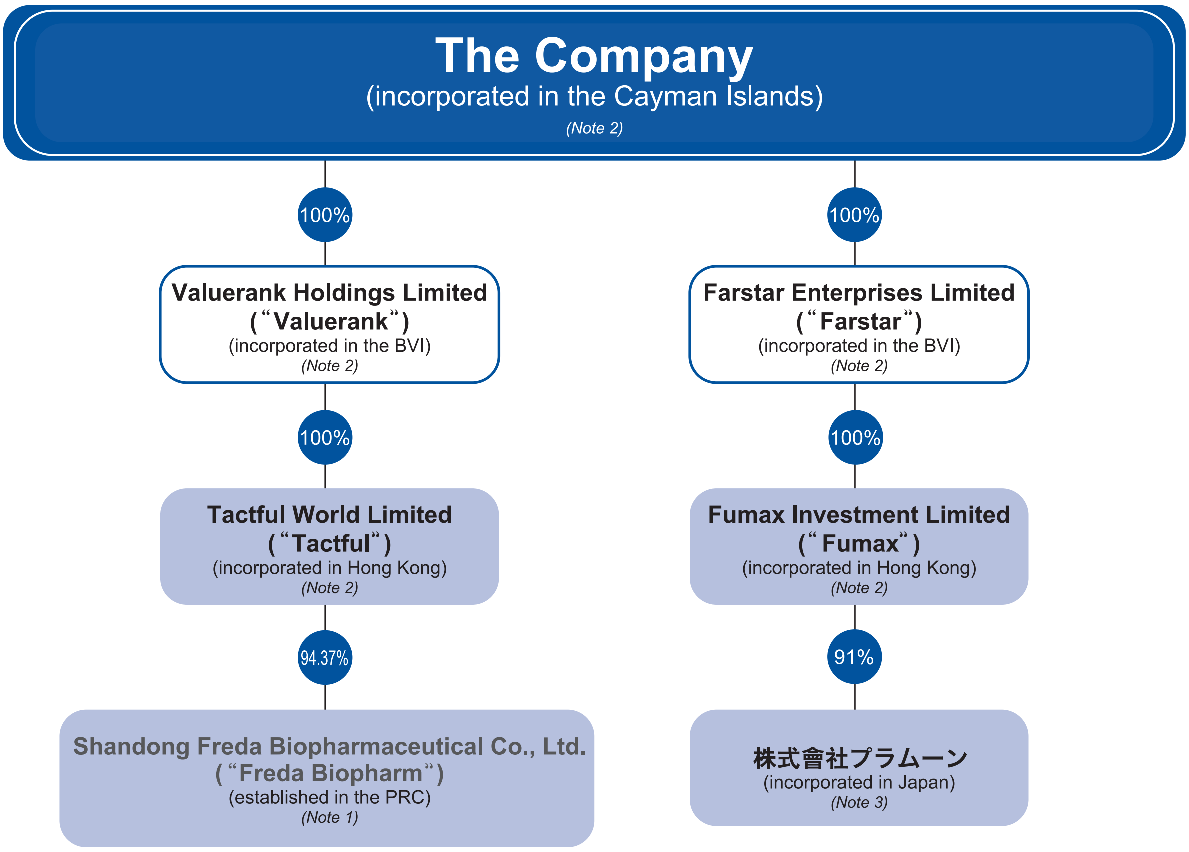
Agricultural Bank of China
Jinan Branch of the Bank of China

Group Overview

Bloomage BioTechnology Corporation Limited (the "Company", and together with its subsidiaries, the "Group") is an investment holding company. Its principal operating subsidiary is a manufacturer of hyaluronic acid ("HA") in the PRC principally engaging in the manufacture and sale of a diversified range of HA products. HA is a naturally occurring substance that can be 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 annual report:



Notes:

1. Freda Biopharm is the principal operating subsidiary of the Company.

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

3. 株式會社プラムーン was incorporated on 14 February 2011. The principal activities of 株式會社プラムーン are investment, production and sale of HA end products.

Chairman's Statement

To all Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the annual report of the Company (together with its subsidiaries, the "Group") for the year ended 31 December 2010. The Group achieved a satisfactory result in 2010. The annual turnover amounted to RMB153,661,000, representing an increase of 31.1% as compared to 2009 and the profits attributable to shareholders was RMB60,442,000 with a growth of 19.2% as compared to 2009.

FINAL DIVIDEND AND CLOSURE OF REGISTER

The Board has recommended the payment of a final dividend of HK1.7 cents per share of the Company (the "Share") for the year ended 31 December 2010 (2009: HK1.8 cents per Share). Subject to the approval of the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting of the Company to be held on 19 May 2011 or any adjourned meeting, the above dividend is expected to be paid on or around 9 June 2011.

The transfer books and register of members of the Company will be closed from 16 May 2011 to 19 May 2011, 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, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 13 May 2011.

BUSINESS REVIEW

The Group continues to register good progress in the year of 2010. Net profit for the year amounted to RMB60,442,000, representing an increase of 19.2% as compared to the year of 2009. The increase was primarily attributable to the Group's international and professional strategy. While maintaining the domestic sales, the Group expanded the overseas market and explored the business opportunities of all grades of HA products for both PRC and overseas customers.

In 2010, as the global economic situation gradually improved, the Group achieved a good growth in overseas sales. For the marketing strategy, the Group actively developed new customers and explored new business opportunities with existing customers through more accurate positioning of products and comprehensive customer service. Besides, with the promotion of new applications of HA related products and helping customers in planning their products applications, the Group has broadened the applications and market share of HA and hence enhanced the sales of all grades of HA products.

In 2010, the Group further optimized and improved its production technologies such as HA fermentation and purification, making the product quality and production yield reached world leading level. Besides, the Group continued to improve the production process and implement various measures to promote energy savings and lower consumption.

In 2010, the Group accelerated the research and development process and succeeded in developing new HA products, including the soft tissue filler that makes use of cross-linked HA which is to be used in medical device and HA gel for orthopaedic and ophthalmologic uses. All these end products are already in the stage of product registration clinical trials.

As a result of the effective strategy implementation, the Group had sustained a healthy business growth and achieved an increasing operating result in 2010.

OUTLOOK

Looking ahead, the Group will continue adhering to the strategic principle 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 focus on the development of new products and expedite the launch of end products such as soft tissue filler that makes use of cross-linked HA for cosmetic surgery use and HA gel for orthopaedic and ophthalmologic uses. Besides, the Group will enhance the high-purity HA oligosaccharide preparation techniques. In view of the increasing competition in the industry, the Group will broaden and promote HA application (including food grade healthcare products) in order to achieve sustainable growth of the Group.

The Group will continue to strengthen the promotion of all levels of HA products and adhere to the brand strategy in order to consolidate and enhance its leading position in the HA sector. In addition, the Group will actively look for suitable investment opportunities to further expand the business scale with diversified business development.

The Board and I are confident about the future development of the Group and believe that the Group will be able to capture opportunities arising from various adversities and challenges with rapid development and to create 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 made by the management and all the members of the staff.

Zhao Yan

Chairman
25 March 2011

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 healthcare products such as oral health supplement.

In 2010, both domestic and international economic situation has gradually improved. With the increase in living standard and enhancement of social security such as medical benefits provided by the PRC government, HA has increasingly been used in the PRC. Although the competition in the domestic HA market in the PRC became more fierce, the Group had managed to maintain excellent product quality and therefore recorded steady increase in domestic sales in 2010. In addition, with the gradual global economic recovery, the Group's overseas sales had emerged from the financial crisis and achieved a better growth in 2010.

With the favourable environmental development, the Group seized the opportunity to set up proactive development and marketing strategies. It 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 2010.

The Group's annual turnover amounted to RMB153,661,000 in 2010, representing an increase of 31.1% as compared to 2009. The Group's gross profits increased by 25.5% from RMB96,037,000 in 2009 to RMB120,560,000 in 2010 and its distributable profits increased by 19.2% from RMB50,688,000 in 2009 to RMB60,442,000 in 2010. Subject to the approval by the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting, the Directors recommended the payment of a final dividend of HK1.7 cents per share for the year ended 31 December 2010 (2009: HK1.8 cents per share) to the Shareholders whose names appear on the register of members of the Company on 19 May 2011, amounting to approximately HK$5,304,000 in total.

Broaden the market and expanding overseas sales

With advanced technology and quality control of HA in the production process of the Group, together with the second phase production base of HA which was in compliance with the FDA requirements, the Group has further strengthened its technological edges and leading position in the HA sector and enhanced its brand image in the industry. While striving for the market share in the PRC market, the Group has also made additional efforts to expand the overseas market in which the sales trend was under gradual recovery. Compared with 2009, the Group has maintained steady growth in domestic sales and recorded substantial increase in overseas sales during 2010. This was primarily attributable to the increase of market demand and the enhancement of promotion activities for food grade and cosmetic grade HA products in the overseas market, in particular Japan and the USA.

The Group has expanded the promotion of the brand and marketing of products and has developed the brand image through customers with strong purchasing power. The Group has also encouraged existing customers to increase the scope of HA usage in their products in order to increase the sales. The Group further strived for exploring new customers of different brands so as to enlarge the customer base. Besides, the Group has enlarged the market by promoting the new usage of eye drop grade HA in contact lens lubrication and eye care. With the qualification of new source of food products, the Group has increased its efforts in developing health food customers. In 2010, the Group has been successful in attracting various new customers.

Production efficiency enhancement, process optimization and cost control

In 2010, the Group continued its efforts 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 its efforts in 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, maintained a relatively high technological level and controlled the increase in production costs despite the increased cost of raw materials, as a result of which greater economic benefits were generated to the Group during 2010.

R&D enhancement, end product development and product expansion

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 yield, the Group had also fortified its research and development efforts and enhanced its production skills. In 2010, in order to match up with the future sustainable development strategy in enhancing the business scope and profitability, the Group had reinforced its research and development efforts in developing new products. On the one hand, the Group had expanded the application of HA as raw materials through the development of different molecular weight HA, HA oligosaccharide and HA related side products. On the other hand, the Group had extended the product chains through the development of end products and stepping up the effort in filing of the research results.

During 2010, the Group had successfully completed the trial production of soft tissue fillers that made use of cross-linked HA and to be used in medical device and also completed the important CE certification process and the related ISO13485 quality management system, and its application in respect of the medical device registration certificate was already at the stage of clinical trials. The Group had also successfully developed the HA gel for orthopaedic and ophthalmologic uses which was at the stage of product registration. The Group had added the production clause of "small volume injection" under its pharmaceutical products license, which would help to ensure that the new developed end product of hyaluronic acid injection, i.e. the HA gel for orthopaedic, is qualified to apply for pharmaceutical production number. Besides, the Group established a sales company in Japan in 2011 and is considering establishing a sales company in Bejing in order to expand the market for end products.

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:

Brand strategy and expansion of distribution network

In 2011, the Group will continue to use brand strategy and develop business relationship with more renowned brand names in order to strengthen the development of PRC and overseas markets. With strong brand image, the Group is able to increase the market awareness of the Group's HA products in respect of cosmetics, pharmacy and food. The Group will participate in more trade fairs and exhibitions and pay visits to customers so that the Group can get closer contacts with these enterprises and understand their needs.

In respect of the development of the PRC market, the Group will make effort to marketing and continue the brand strategy in the sale of cosmetic grade HA which has contributed a large share of turnover to the Group. Besides, the Group will try to promote new products such as different molecular weight HA and HA oligosaccharide to the customers. While maintaining the existing market share, the Group will develop new customers, in particular the branded customers, in order to enlarge customer base and strengthen the market competitiveness of the Group. The Group will continue to develop the customer base for pharmaceutical products such as contact lens lubricating lotion and eye care lotion and that for food grade HA healthcare products, and drive the declaration of HA used in normal food.

For the expansion of overseas markets, the Group will continue to focus on the USA, the Asia Pacific region and Europe, which have high spending power and where the Group has already developed its foothold, 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 has accumulated rich experience in 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.

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.

Emphasize the R&D enhancement and expedite the development of new products

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 HA healthcare food products containing HA. 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.

Launch new products and quality enhancement

In order to expand the product chains and the development of HA products, the Group has succeeded in developing the end products including the soft tissue filler that makes use of cross-linked HA, HA gel for orthopaedic and ophthalmologic uses. The Group will expedite the registration process and related testing of these new products, and commence medical device GMP certification and European Union CE certification so as to speed up the launch of the products. In order to expand the customer base for raw materials products, the Group intends to apply for a number of qualification certificates, such as pharmaceutical raw materials production license, injection grade products European Union CEP declaration and organic cosmetic raw materials certification. 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) to use the Group's products as raw materials in their production. Besides, the Directors believe that since the end products such as soft tissue filler that makes use of cross-linked HA will have a considerable prospect and the HA products applied in pharmaceutical uses generally can attract higher selling prices than other HA products, they will bring higher sales revenue to the Group.

FINANCIAL REVIEW

Turnover

The Group's turnover for the year 2010 was RMB153.661 million, representing an increase of 31.1% or RMB36.471 million as compared to 2009. The increase in turnover was mainly attributable to the increase in sales of eye drop, cosmetic and food grade products.

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

	For the year ended 31 December			
	2010		2009	
	RMB'000	**%**	RMB'000	%
Injection	**15,953**	**10.4**	17,296	14.8
Eye drop	**21,951**	**14.3**	16,931	14.4
Cosmetic	**99,550**	**64.8**	69,604	59.4
Food	**15,324**	**10.0**	12,426	10.6
Other	**883**	**0.5**	933	0.8
Total	**153,661**	**100.0**	117,190	100.0

Cost of sales

Cost of sales for the year ended 31 December 2010 was approximately RMB33.101 million, representing an increase of approximately 56.5% as compared to approximately RMB21.153 million for 2009. The increase was mainly attributable to the increase in sales volume.

Gross profit margin

The Group's gross profit margin for the year 2010 decreased slightly to 78.5% from 81.9% in 2009. The decrease was mainly due to the change in sales mix of cosmetic grade HA products between domestic and overseas markets. In 2010, the overseas sales of cosmetic grade HA products accounted for 24% (2009: 14%) of the Group's total sales, of which the gross profit margin was lower than that of domestic sales.

Other revenue

Other revenue of the Group was RMB6.161 million for the year 2010, representing an increase of about 150.3% from approximately RMB2.461 million for the year 2009. The increase in other revenue was attributable to the increase in the government grants and rental income.

Distribution costs

The Group's distribution costs for the year 2010 were approximately RMB14.555 million, representing an increase of about 48.6% from approximately RMB9.794 million for the year 2009. The increase was in line with the increase in total sales volume and especially the increase in export sales in 2010.

Administrative expenses

The Group's administrative expenses for the year 2010 were approximately RMB25.150 million, representing an increase of about 30.5% from approximately RMB19.273 million for the year 2009. The increase in administrative expenses was mainly due to increase in staff cost resulted from salary increment and the recruitment of additional staff, as well as increase in research and development expenses relating to development of new products.

Other operating expenses

The Group's other operating expenses for the year 2010 were approximately RMB1.889 million, representing an increase of about 455.6% from approximately RMB0.340 million for the year 2009. The increase in other operating expenses for the year 2010 was mainly attributable to the increase in the exchange loss and loss on disposal of property, plant and equipment.

Finance costs

The Group's finance costs for the year 2010 were approximately RMB8.785 million, representing a slight decrease of about 2.3% from approximately RMB8.996 million for the year 2009. The slight 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 2010 was approximately RMB60.442 million, representing an increase of about 19.2% from approximately RMB50.688 million for the year 2009.

Final dividend and closure of register

The Board proposed the payment of a final dividend of HK1.7 cents (2009: HK1.8 cents) per Share to the Shareholders whose names appear on the register of members of the Company on 19 May 2011. 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 9 June 2011.

The transfer books and the register of members of the Company will be closed from 16 May 2011 to 19 May 2011, 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, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 13 May 2011.

Liquidity, capital structure and financial resources

As at 31 December 2010, the Group had current assets of approximately RMB180.326 million (2009: RMB131.023 million) and current liabilities of approximately RMB29.520 million (2009: RMB29.126 million). The current ratio of the Group as at 31 December 2010 was approximately 610.9% (2008: 449.8%). The increase in current ratio was mainly due to the increase in cash from operation.

As at 31 December 2010, the Group had cash and cash equivalents of approximately RMB134.388 million (31 December 2009: RMB95.282 million) and total liabilities of approximately RMB78.916 million (31 December 2009: RMB76.271 million).

As at 31 December 2010, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 26.1% (31 December 2009: 31.1%). The decrease in gearing ratio as at 31 December 2010 as compared to that as at 31 December 2009 was principally attributable to the increase in total assets resulted from the Group's business operation.

Net cash generated from operating activities for 2010 was approximately RMB74.869 million.

Net cash used in investing activities for 2010 was approximately RMB22.470 million, representing the capital expenditure in enhancement of production facilities of the Group.

Net cash used in financing activities for 2010 was approximately RMB12.209 million, representing the payment of interest of preferred shares of RMB7.271 million and the payment of dividend to equity shareholders of approximately RMB4.938 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 2010, the Group had no contingent liabilities.

Capital commitment

As at 31 December 2010, the capital commitment of Group was approximately RMB0.985 million (2009: RMB19.250 million).

Employee information

As at 31 December 2010, the Group had 247 (2009: 220) employees, majority of whom were stationed in the PRC. Total remuneration for 2010 amounted to RMB22.223 million (2009: RMB16.942 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 2010, the Group did not have any charge on its assets.

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

During the year ended 31 December 2010, 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 44, 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 International Investments Group Inc. (formerly known as Bloomage Investments Co., Ltd) ("Bloomage International"), 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 35, 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 International, 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.

Biography of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Cheng Bo, aged 50, 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 38, 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 54, 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 43, 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 48, 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") during the period between July 1998 and December 2001. Ms. Liu has over 27 years' experience in both of pharmaceutical research and management. She joined the Group in January 2002.

Mr. Wang Chunxi, aged 43, is the vice general manager 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 46, is the vice general manager 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(國家發展計劃委員會)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・楊森藥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. He Shan, aged 40, 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 42, 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 46, 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 21 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 2010.

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 2010 are set out in the consolidated statement of comprehensive income on page 41.

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 HK1.7 cents for the year ended 31 December 2010 to Shareholders whose names appear on the register of members of the Company on 19 May 2011, amounting to approximately HK$5,304,000 in aggregate.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from 16 May 2011 to 19 May 2011, 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, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 13 May 2011.

GROUP FINANCIAL SUMMARY

The summary of the results of the Group for the five years ended 31 December 2010 and the assets and liabilities of the Group as at 31 December 2006, 2007, 2008, 2009 and 2010 are set out on page 102.

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 24(c) to the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity and note 24 to the financial statements, respectively.

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 remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

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. As at 31 December 2010, net proceeds were utilised as follows:

	HK$'000
Constructing the new production line for the manufacture of eye drop and injection grade HA products	13,147
Constructing the new production line for the manufacture of finished injection grade HA products which would be used as medical device	22,314
Improving research and development capability	5,555
Promotion and expansion of the Group's distribution network	9,069
Total	50,085

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, 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 *(Chief Executive Officer)*

Non-executive Director:

Mr. Cheng Bo

Independent non-executive Directors

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

All the Directors 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 annual report still considers them to be independent.

Each of the executive Directors has entered into a service contract for a term of two years commencing from 3 October 2009. Each of the executive Directors and the Company may terminate the appointment during the term 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 years 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.

Save as disclosed above, 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 20.

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 annual report was 31,200,000 Shares which represented 10% of the issued share capital of the Company as at the date of this annual 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 2010, 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%
Mr. Cheng Bo	Interest of a controlled corporation *(note 3)*	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 AIM First Investments Limited ("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 28,080,000 Shares are held by Newgrand Holdings Limited ("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 2010, 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 2010, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name	Nature of interest	Number of Shares held	Approximate percentage of the issued capital of the Company
Substantial shareholders			
AFI *(Note 2)*	Beneficial owner	182,520,000(L) *(Note 1)*	58.5%
Mr. Wang Yi *(Note 3)*	Interest of spouse	182,520,000 (L)	58.5%
Others			
Newgrand *(Note 4)*	Beneficial owner	28,080,000 (L)	9%
Ms. 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) AIM First Investments Limited ("AFI") is wholly-owned by Ms. Zhao Yan. Ms. Zhao is the sole director of AFI.

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

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

(5) Ms. Zhu Jin Rong is the spouse of Mr. Cheng Bo. Under the SFO, Ms. 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 2010, 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 sections headed "Directors' interests and short positions in shares, underlying shares and debentures" and "Share Option Scheme" 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) during the year ended 31 December 2010, they had complied with their respective non-competition undertakings. The Committee also confirmed that they were 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 12.6% and 34.8% respectively of the Group's turnover while the Group's purchase from the largest and five largest suppliers accounted for approximately 39.9% and 56.9% 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

Shandong Freda Bioengineering Co., Ltd ("Freda Bioengineering") is a limited company owned as to approximately 56.25% by Freda Pharmaceutical Group and approximately 43.75% by Shandong Zhengda Technology Co., Ltd., which is owned as to 78.8% by Ms. Zhao Yan. As Freda Bioengineering is a company controlled by Ms. Zhao, it is a connected person of the Company pursuant to the Listing Rules.

On 25 December 2008, Freda Biopharm, a subsidiary of the Company and Freda Bioengineering entered into a lease agreement, pursuant to which Freda Biopharm agreed to lease certain properties located in Shandong, the PRC to Freda Bioengineering for a term of three years commencing from 25 December 2008 to 24 December 2011 at an annual rental of RMB418,016.

In addition, Freda Bioengineering has been purchasing products from the Group in the past two years. The aggregate sales amount for the two years ended 31 December 2009 and 31 December 2010 were approximately RMB32,000 and RMB15,000, respectively. The Directors expect that the aggregate sales amount for the year ended 31 December 2011 will not be more than RMB500,000.

The transactions contemplated under the aforesaid lease agreement and sales transaction constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules but are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

Save as disclosed above, the Directors consider that those material related party transactions disclosed in note 28 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.

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

For the year ended on 31 December 2010, 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.

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 annual 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 2010.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set out in note 29 to the financial statements.

AUDITORS

The financial statements for the year ended 31 December 2010 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, 25 March 2011

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules. The Company had complied with the code provisions of the Code during the year ended 31 December 2010.

BOARD OF DIRECTORS

The Board currently comprises 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 *(Chief Executive Officer)*

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 overseeing the Group's businesses, strategic decisions and performance. The management is 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 annual 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 annual 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 2010, the Board held five meetings and the individual attendance of the Directors at the board meetings is as follows:

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

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.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an term of two years 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 years 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.

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

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

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

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2010. 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 2010.

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 (the "Audit Committee") are to review and supervise the financial reporting process and internal control procedures of the Group. The members of the Audit Committee consist of three independent non-executive Directors, namely Mr. Qin Bin, Ms. Zhan Lili and Mr. Zhang Fuping. Mr. Qin Bin who possesses rich financial management experience and relevant expertise, 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 provisions of the Code and are available upon request and on the Group's website.

During 2010, the Audit Committee has reviewed the Group's internal controls. The Group's final results for the year ended 31 December 2010 had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee has also reviewed this annual 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 meetings during the year ended 31 December 2010. 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 2010, 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	2010 RMB'000	2009 RMB'000
Non-audit services	30	—
Audit services	879	823
	909	823

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 to 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 2010. 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 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 2010. 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 2010.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2010. The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2010. 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 the 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 19 May 2011.

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") and its subsidiaries (together the "Group") set out on pages 41 to 101, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated 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 2010 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 Chater Road
Central, Hong Kong

25 March 2011

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	2010 *RMB'000*	2009 *RMB'000*
Turnover	4	**153,661**	117,190
Cost of sales		**(33,101)**	(21,153)
Gross profit		**120,560**	96,037
Other revenue	5	**6,161**	2,461
Distribution costs		**(14,555)**	(9,794)
Administrative expenses		**(25,150)**	(19,273)
Other operating expenses		**(1,889)**	(340)
Profit from operations		**85,127**	69,091
Finance costs	6(a)	**(8,785)**	(8,996)
Profit before taxation	6	**76,342**	60,095
Income tax	7(a)	**(15,900)**	(9,407)
Profit for the year		**60,442**	50,688
Other comprehensive income for the year:			
Exchange differences on translation of financial statements of foreign operations		**(959)**	(45)
Total comprehensive income for the year		**59,483**	50,643
Basic and diluted earnings per share (RMB)	11	**0.19**	0.16

The notes on pages 48 to 101 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 24(b).

Consolidated Balance Sheet

at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment, net	12	**109,830**	101,262
Construction in progress	13	**—**	630
Intangible assets	14	**774**	555
Lease prepayments	15	**11,855**	12,125
Total non-current assets		**122,459**	114,572
Current assets			
Inventories	17	**19,854**	12,627
Trade and other receivables	18	**22,532**	23,114
Restricted cash	19	**3,552**	—
Cash and cash equivalents	19	**134,388**	95,282
Total current assets		**180,326**	131,023
Current liabilities			
Trade and other payables	20	**19,292**	19,171
Current portion of preferred shares	21	**7,853**	7,271
Income tax payable	22(a)	**2,375**	2,684
Total current liabilities		**29,520**	29,126
Net current assets		**150,806**	101,897
Total assets less current liabilities		**273,265**	216,469
Non-current liabilities			
Deferred income	23	**1,805**	1,805
Deferred tax liabilities	22(b)	**2,400**	1,081
Preferred shares	21	**45,191**	44,259
Total non-current liabilities		**49,396**	47,145
Net assets		**223,869**	169,324

The notes on pages 48 to 101 form part of these financial statements.

	Note	2010 RMB'000	2009 RMB'000
Capital and reserves			
Share capital	24(c)	**2,801**	2,801
Reserves	24(d)	**221,068**	166,523
Total equity		**223,869**	169,324

Approved and authorised for issue by the board of directors on 25 March 2011.

Zhao Yan
Director

Guo Jiajun
Director

The notes on pages 48 to 101 form part of these financial statements.

Balance Sheet

at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	16	**35,206**	37,315
Other receivables	18(b)	**47,108**	–
Total non-current assets		**82,314**	37,315
Current assets			
Other receivables	18(a)	**257**	48,060
Cash and cash equivalents	19	**7,069**	2,200
Total current assets		**7,326**	50,260
Current liabilities			
Amount due to a subsidiary	20	**1,465**	1,515
Accrued expenses and other payables	20	**385**	704
Total current liabilities		**1,850**	2,219
Net current assets		**5,476**	48,041
Net assets		**87,790**	85,356
Capital and reserves			
Share capital	24(a)	**2,801**	2,801
Reserves	24(a)	**84,989**	82,555
Total equity		**87,790**	85,356

Approved and authorised for issue by the board of directors on 25 March 2011.

Zhao Yan
Director

Guo Jiajun
Director

The notes on pages 48 to 101 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

		Attributable to equity shareholders of the Company						
		Share capital	Share premium	Statutory reserves	Other reserve	Exchange reserve	Retained earnings	Total
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			24(d)(i)	*24(d)(ii)*	*24(d)(iii)*	*24(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:								
Profit for the year		—	—	—	—	—	50,688	50,688
Other comprehensive income		—	—	—	—	(45)	—	(45)
Total comprehensive income for the year		—	—	—	—	(45)	50,688	50,643
Appropriation to statutory reserves		—	—	5,196	—	—	(5,196)	—
Dividends for the year ended 31 December 2008	24(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 48 to 101 form part of these financial statements.

Consolidated Statement of Changes in Equity (Continued)

for the year ended 31 December 2010

		Attributable to equity shareholders of the Company						
		Share capital	Share premium	Statutory reserves	Other reserve	Exchange reserve	Retained earnings	Total
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			24(d)(i)	*24(d)(ii)*	*24(d)(iii)*	*24(d)(iv)*		
Balance at 1 January 2010		2,801	50,187	10,941	21,210	292	83,893	169,324
Changes in equity for 2010:								
Profit for the year		—	—	—	—	—	60,442	60,442
Other comprehensive income		—	—	—	—	(959)	—	(959)
Total comprehensive income for the year		—	—	—	—	(959)	60,442	59,483
Appropriation to statutory reserves		—	—	7,225	—	—	(7,225)	—
Dividends for the year ended 31 December 2009	24(b)	—	—	—	—	—	(4,938)	(4,938)
Balance at 31 December 2010		**2,801**	**50,187**	**18,166**	**21,210**	**(667)**	**132,172**	**223,869**

The notes on pages 48 to 101 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Cash generated from operations	19(b)	**89,242**	69,577
PRC income tax paid		**(14,890)**	(9,793)
Interest received		**517**	154
Interest paid on bank borrowings		**—**	(495)
Net cash generated from operating activities		**74,869**	59,443
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress and intangible assets		**(22,470)**	(10,752)
Proceeds from disposal of property, plant and equipment		**—**	531
Net cash used in investing activities		**(22,470)**	(10,221)
Financing activities			
Repayment of bank borrowings		**—**	(10,000)
Dividends paid on preferred shares		**(7,271)**	(6,732)
Dividends paid to equity shareholders of the Company		**(4,938)**	(8,828)
Net cash used in financing activities		**(12,209)**	(25,560)
Net increase in cash and cash equivalents		**40,190**	23,662
Cash and cash equivalents at 1 January		**95,282**	71,634
Effect of foreign exchange rate changes		**(1,084)**	(14)
Cash and cash equivalents at 31 December	19(a)	**134,388**	95,282

The notes on pages 48 to 101 form part of these financial statements.

Notes to the Financial Statements

1 CORPORATE INFORMATION

Bloomage BioTechnology Corporation Limited (the "Company") was incorporated in the Cayman Islands on 3 April 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 October 2008. Its principal subsidiary, Shandong Freda Biopharmaceutical Co., Ltd. ("Freda Biopharm") was established in the People's Republic of China (the "PRC") principally engaging in the manufacture and sale of bio-chemical products. The consolidated financial statements of the Company for the year ended 31 December 2010 comprise the Company and its subsidiaries (collectively referred to as the "Group").

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

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries.

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 judgements 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.

Judgements 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 31.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of Freda Biopharm, the Company's principal subsidiary operating in the PRC. The Company's functional currency is Hong Kong dollar ("HK$").

(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 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, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs. 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 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 charged to profit or loss on a straight-line basis over the lease period of land use rights.

(g) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and 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;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

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

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(g)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(g)(ii).

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (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 preferred 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.

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 and Hong Kong 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.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Income tax *(continued)*

Apart from certain limited exception, 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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Income tax *(continued)*

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Translation of foreign currencies

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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 two revised IFRSs, a number of amendments to IFRSs and two 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:

- Improvements to IFRSs (2009)

The development resulted in change in accounting policy which is relevant to the Group's financial statements is as follows:

- As a result of the amendment to IAS 17, *Leases*, arising from the "Improvements to IFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate. This change in accounting policy has no material impact on the current or previous periods.

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

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.

	2010	2009
	RMB'000	*RMB'000*
Hyaluronic acid ("HA") products	**152,778**	116,257
Heparin products	**328**	455
Others	**555**	478
	153,661	117,190

The Group's customer base is diversified and includes only two (2009: one) customers with whom transactions have exceeded 10% of the Group's revenues. In 2010, revenues from sales of HA products to these customers, including sales to entities which are known to the Group to be under common control with these customers amounted to approximately RMB 37,748,000 (2009: RMB 18,702,000) 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 26(a).

5 OTHER REVENUE

	Note	2010 RMB'000	2009 RMB'000
Government grants	(a)	**3,180**	1,261
Interest income		**517**	154
Rental and related property management service income		**2,357**	836
Sale of scrap materials		**—**	50
Others		**107**	160
		6,161	2,461

(a) Government grants

The grants represented the assistances of RMB 3,129,000 in relation to the research and development of HA products and an award of RMB 51,000 in relation to the promotion of "Freda" as a famous Shandong brand name in the PRC (2009: incentives of RMB 1,261,000 in relation to the research and development of HA products and construction of related sewage purification facilities) received by Freda Biopharm in 2010.

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

	2010	2009
	RMB'000	*RMB'000*
Interest expense on bank borrowings wholly repayable within one year	**—**	472
Less: interest expense capitalised into construction in progress *	**—**	(10)
Dividends on preferred shares (Note 21)	**8,785**	8,534
	8,785	8,996

* The borrowing costs were capitalised at a rate of 8.217% per annum in 2009.

(b) Staff costs

	2010	2009
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**20,980**	15,678
Contributions to defined contribution retirement plan	**1,243**	1,264
	22,223	16,942

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 21%-22% (2009: 22%) of the eligible employees' salaries during the year. The local government authorities are responsible for the entire retirement plan obligation payable to retired employees. For those forfeited contributions under the Schemes, the amounts could not be used by the Group to reduce the existing level of contributions.

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

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

6 PROFIT BEFORE TAXATION *(continued)*

(c) Other items

	Note	2010 RMB'000	2009 RMB'000
Amortisation			
– intangible assets		**81**	64
– lease prepayments		**270**	270
Auditors' remuneration		**909**	823
Depreciation		**8,289**	7,355
Net foreign exchange loss		**985**	145
Net loss/(gain) on disposal of property, plant and equipment		**637**	(197)
Rental and related management income		**(2,357)**	(836)
Operating lease charges in respect of leased plant and equipment		**250**	189
Research and development costs	(i)	**7,769**	4,376

(i) Research and development costs for the year ended 31 December 2010 included RMB 5,181,000 (2009: RMB 3,584,670) 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:

	2010 RMB'000	2009 RMB'000
Current tax - PRC income tax		
Provision for the year (Note 22(a))	**14,581**	9,927
Deferred tax		
Origination and reversal of temporary difference	**1,319**	(520)
	15,900	9,407

7 INCOME TAX *(continued)*

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

	Note	2010 RMB'000	2009 RMB'000
Profit before taxation		**76,342**	60,095
PRC income tax expense at a statutory tax rate of 25%	(i)	**19,086**	15,024
Tax effect of tax concession	(ii)	**(7,635)**	(6,010)
Tax effect of non-deductible expenses	(iii)	**2,049**	1,780
Tax credit relating to domestic equipment purchase	(iv)	**—**	(1,667)
Effect of withholding tax at 10% on the distributable profits of Freda Biopharm (Note 22(b))	(v)	**2,400**	1,081
Effect of withholding tax resulting from a change in tax rate	(vi)	**—**	(801)
Income tax		**15,900**	9,407

(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 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 2010 is 15% (2009: 15%).

(iii) The non-deductible expenses primarily represent dividends on the preferred shares.

(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 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 PRC income tax at the rate of 10% on various types of passive income including dividends derived from sources in the PRC ("withholding tax").

7 INCOME TAX *(continued)*

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

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

(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:

	2010			
	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chairman				
Zhao Yan	—	132	—	132
Executive director				
Guo Jiajun	—	176	—	176
Non-executive director				
Cheng Bo	88	—	—	88
Independent non-executive directors				
Qin Bin	70	—	—	70
Zhan Lili	70	—	—	70
Zhang Fuping	—	—	—	—
	228	308	—	536

8 DIRECTORS' REMUNERATION *(continued)*

Details of directors' remuneration are as follows: *(continued)*

	2009			
	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Total
	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

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 (2009: none) are directors of the Company. Details of remuneration paid to the five (2009: five) highest paid individuals of the Group are as follows:

	2010	2009
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	**2,187**	1,405
Bonus	**820**	800
Contributions to retirement benefit schemes	**114**	106
	3,121	2,311

The emoluments of these individuals are within the following bands:

	2010	2009
HKD Nil ~ HKD 1,000,000	**4**	5
HKD 1,000,001 ~ HKD 1,500,000	**1**	—

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB 1,859,000 (2009: RMB 2,337,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2010	2009
	RMB'000	*RMB'000*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(1,859)**	(2,337)
Final dividends from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**12,860**	8,828
Company's profit for the year (Note 24(a))	**11,001**	6,491

Details of dividends paid and payable to equity shareholders of the Company are set out in Note 24(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 2010 of RMB 60,442,000 (2009: RMB 50,688,000) and the ordinary shares in issue during the year ended 31 December 2010 of 312,000,000 shares (2009: 312,000,000 ordinary shares).

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 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
At 1 January 2010	68,431	50,719	1,495	2,960	123,605
Additions	119	1,044	186	639	1,988
Transferred from construction in progress (Note 13)	—	15,506	—	—	15,506
Disposals	—	(1,500)	—	(339)	(1,839)
At 31 December 2010	68,550	65,769	1,681	3,260	139,260

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*
Accumulated depreciation:					
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
At 1 January 2010	8,243	11,745	693	1,662	22,343
Charge for the year	3,035	4,557	215	482	8,289
Written back on disposal	—	(898)	—	(304)	(1,202)
At 31 December 2010	11,278	15,404	908	1,840	29,430
Net book value:					
At 31 December 2009	60,188	38,974	802	1,298	101,262
At 31 December 2010	57,272	50,365	773	1,420	109,830

All the Group's property, plant and equipment are located in the PRC. As at 31 December 2010, property certificates of certain properties of the Group with an aggregate net book value of RMB 453,000 (31 December 2009: RMB 616,000) are yet to be obtained. Management expects that the related certificates will be obtained within one year.

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

(a) Buildings and plant leased out under operating leases

The Group leases out part of the buildings and plant to certain related parties (see Note 28(a)) under operating leases. The leases run for a period of three years. None of the leases includes contingent rentals. The directors consider that these leases are temporary and shortly after the expiry of these leases, the leased portion of the buildings and plants will be used for the Group's production of its HA products and accordingly the leased portion of the buildings and plant have been accounted for 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:

	2010	2009
	RMB'000	*RMB'000*
Within 1 year	**2,357**	836
After 1 year but within 5 years	**1,939**	822
	4,296	1,658

13 CONSTRUCTION IN PROGRESS

	The Group	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**630**	22,744
Additions	**14,876**	968
Transferred to property, plant and equipment (Note 12)	**(15,506)**	(23,082)
At 31 December	**—**	630

14 INTANGIBLE ASSETS

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Cost:		
At 1 January	**814**	814
Additions	**300**	—
At 31 December	**1,114**	814
Accumulated amortisation:		
At 1 January	**(259)**	(195)
Charge for the year	**(81)**	(64)
At 31 December	**(340)**	(259)
Net book value:		
At 31 December	**774**	555

Intangible assets mainly represent technology know-how in relation to the production of HA products and software acquired by the Group.

15 LEASE PREPAYMENTS

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Cost:		
At 1 January/31 December	**13,497**	13,497
Accumulated amortisation:		
At 1 January	**(1,372)**	(1,102)
Charge for the year	**(270)**	(270)
At 31 December	**(1,642)**	(1,372)
Net book value:		
At 31 December	**11,855**	12,125

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	
	2010	2009
	RMB'000	*RMB'000*
Unlisted shares, at cost	**35,206**	37,315

Details of the subsidiaries at 31 December 2010 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 Holdings Limited ("Valuerank")	British Virgin Islands ("BVI") 7 January 2005	United States Dollars ("USD") 1/ USD 50,000	100%	—	Investment holding
Farstar Enterprises Limited ("Farstar")	BVI 18 March 2005	USD 100/ USD 50,000	100%	—	Investment holding
Tactful	Hong Kong 18 September 2008	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 21), and accordingly, the Group effectively held 100% equity interest in Freda Biopharm.

17 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Raw materials and consumables	**3,879**	2,503
Work in progress	**1,875**	1,869
Finished goods	**14,100**	8,255
	19,854	12,627

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

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**33,101**	21,153

18 TRADE AND OTHER RECEIVABLES

(a) Current trade and other receivables

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**16,772**	12,890	**—**	—
Bills receivable	**1,983**	6,971	**—**	—
Prepayments and other receivables	**3,765**	3,218	**257**	193
Other receivables due from related parties	**12**	35	**—**	—
Amounts due from subsidiaries	**—**	—	**—**	47,867
	22,532	23,114	**257**	48,060

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) Current trade and other receivables *(continued)*

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

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Current	**14,235**	11,655
1 to 3 months overdue	**1,959**	1,150
3 to 6 months overdue	**494**	85
6 months to 1 year overdue	**84**	—
	16,772	12,890

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 26(a).

As at 31 December 2010, the Group has no impairment losses on trade and other receivables (31 December 2009: 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.

(b) Non-current other receivables

The Company's non-current other receivables represent amounts due from the Company's subsidiaries, which are unsecured, non-interest bearing and have no fixed terms of repayment.

19 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**137,940**	95,282	**7,069**	2,200
Less: restricted cash (i)	**(3,552)**	—	**—**	—
Cash and cash equivalents	**134,388**	95,282	**7,069**	2,200

(i) At 31 December 2010, restricted cash represented deposits with banks for issuance of bills by the Group.

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:

	2010	2009
	RMB'000	*RMB'000*
Profit before taxation	**76,342**	60,095
Adjustments for:		
Amortisation of intangible assets	**81**	64
Amortisation of lease prepayments	**270**	270
Depreciation	**8,289**	7,355
Interest expense on bank borrowings	**—**	462
Dividends on preferred shares	**8,785**	8,534
Interest income	**(517)**	(154)
Net loss/(gain) on disposal of property, plant and equipment	**637**	(197)
Changes in working capital:		
Increase in inventories	**(7,227)**	(4,967)
Decrease/(increase) in trade and other receivables	**57**	(5,165)
Increase in trade and other payables	**2,525**	3,280
Cash generated from operations	**89,242**	69,577

20 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**1,502**	948	**—**	—
Payables for construction of plant and purchase of equipment	**8,490**	10,770	**—**	—
Receipts in advance	**706**	837	**—**	—
Value added tax payable	**284**	568	**—**	—
Other payables due to related parties	**50**	50	**—**	—
Amount due to a subsidiary	**—**	—	**1,465**	1,515
Accrued expenses and other payables	**8,260**	5,998	**385**	704
	19,292	19,171	**1,850**	2,219

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	
	2010	2009
	RMB'000	*RMB'000*
Due within 1 month or on demand	**1,502**	948

21 PREFERRED SHARES

	The Group	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**51,530**	49,728
Dividends during the year	**8,785**	8,534
Payment of dividends of preferred shares	**(7,271)**	(6,732)
	53,044	51,530
Less: Current portion of preferred shares	**(7,853)**	(7,271)
	45,191	44,259

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.

21 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	
	2010	2009
	RMB'000	*RMB'000*
Within one year	**7,853**	7,271
After 1 year but within 5 years	**29,043**	26,892
After 5 years	**16,148**	17,367
	53,044	51,530

The above repayment schedules have 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.

22 INCOME TAX PAYABLE AND DEFERRED TAX LIABILITIES

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

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Balance of PRC income tax relating to prior years	**2,684**	2,550
Provision for PRC income tax for the year (Note 7(a))	**14,581**	9,927
PRC income tax paid	**(14,890)**	(9,793)
	2,375	2,684

(b) Deferred tax liabilities recognised/not recognised:

Deferred tax liabilities as at 31 December 2010 and 31 December 2009 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	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**1,081**	1,601
Charged to profit or loss	**2,400**	1,081
Reversal upon distribution of dividends	**(1,081)**	(1,601)
At 31 December	**2,400**	1,081

22 INCOME TAX PAYABLE AND DEFERRED TAX LIABILITIES *(continued)*

(b) Deferred tax liabilities recognised/not recognised: *(continued)*

As at 31 December 2010, temporary differences relating to the undistributed profits of Freda Biopharm amounted to RMB 113,880,000 (2009: RMB 72,000,000). Deferred tax liabilities of RMB 9,988,000 (2009: RMB 6,119,000) 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 2010.

23 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.

24 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:

	Attributable to equity shareholders of the Company					
The Company	Share capital RMB'000 24(c)	Share premium RMB'000 24(d)(i)	Contributed surplus RMB'000 (i) below	Exchange reserve RMB'000 24(d)(iv)	(Accumulated losses)/retained earnings RMB'000	Total RMB'000
Balance at 1 January 2009	2,801	50,187	36,966	347	(2,559)	87,742
Changes in equity for 2009:						
Profit for the year	—	—	—	—	6,491	6,491
Other comprehensive income	—	—	—	(49)	—	(49)
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 and 1 January 2010	2,801	50,187	36,966	298	(4,896)	85,356
Changes in equity for 2010:						
Profit for the year	—	—	—	—	11,001	11,001
Other comprehensive income	—	—	—	(3,629)	—	(3,629)
Total comprehensive income for the year	—	—	—	(3,629)	11,001	7,372
Dividends for the year ended 31 December 2009	—	—	—	—	(4,938)	(4,938)
Balance at 31 December 2010	**2,801**	**50,187**	**36,966**	**(3,331)**	**1,167**	**87,790**

(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 Investments Limited ("AFI") and Newgrand Holdings Limited 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 Company is distributable to the equity shareholders of the Company.

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

	2010	2009
	RMB'000	*RMB'000*
Final dividends proposed after the balance sheet date of HK 1.7 cents per ordinary share (2009: HK 1.8 cents per ordinary share)	**4,462**	4,938

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

(c) Share capital

	2010		2009	
	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

	2010		2009	
	No. of shares	***RMB'000***	*No. of shares*	*RMB'000*
Issued and fully paid:				
At 1 January and 31 December	**312,000,000**	**2,801**	312,000,000	2,801

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purposes of reserves

(i) Share premium

The share premium represents 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 2010 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 21);

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.

24 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 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB 84,989,000 (31 December 2009: RMB 82,555,000), excluding the share capital as disclosed in Note 24(c). After the balance sheet date, the directors proposed a final dividend of HK 1.7 cents per ordinary share (2009: HK 1.8 cents per ordinary share), amounting to HKD 5,304,000 (equivalent to RMB 4,462,000) (2009: HKD 5,616,000). 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 2010, the debt-to-equity ratio of the Group was 18% (31 December 2009: 22%), and the liability-to-asset ratio of the Group was 26% (31 December 2009: 31%).

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.

25 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 2010, 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.

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 2010 and the reconciliation of reportable segment revenues and profit or loss are set out below.

	Year ended 31 December 2010				
	Domestic	**Overseas**			**Total**
		Asia	**Americas**	**Others**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	90,487	28,594	23,130	11,450	153,661
Segment results	75,634	19,336	16,642	7,438	119,050
Unallocated income and expenses					(33,923)
Profit from operations					85,127
Finance costs					(8,785)
Income tax					(15,900)
Profit for the year					60,442

25 SEGMENT REPORTING *(continued)*

	Year ended 31 December 2009				
	Domestic	Overseas			Total
		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 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.

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

(a) Credit risk *(continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

At the balance sheet date, the Group had no outstanding balance due from the Group's largest customer (31 December 2009: 28% of the total trade and other receivables was due from the Group's largest customer) and 30% (31 December 2009: 37%) of the total trade and other receivables was due from the Group's five largest customers.

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

(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.

26 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 2010					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	19,292	19,292	19,292	—	—	—
Preferred shares	53,044	122,307	7,853	8,481	29,735	76,238
	72,336	141,599	27,145	8,481	29,735	76,238

	As at 31 December 2009					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

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

(b) Liquidity risk *(continued)*

Sensitivity analysis *(continued)*

The Company

	As at 31 December 2010			As at 31 December 2009		
	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*
Other payables	1,850	1,850	1,850	2,219	2,219	2,219

(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.

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

(c) Foreign currency risk *(continued)*

(i) Exposure to currency risk

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

2010 Exposure to Foreign currency (expressed in RMB)

	Renminbi	Hong Kong Dollars	United States Dollars	Japanese Yen
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand and at bank	—	33,489	1,859	1,752
Trade and other receivable	10,000	—	6,588	—
Trade and other payable	(1,490)	(17,018)	(60)	—
Net exposure arising from recognised assets and liabilities	8,510	16,471	8,387	1,752

2009 Exposure to Foreign currency (expressed in RMB)

	Renminbi	Hong Kong Dollars	United States Dollars	Japanese Yen
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand and at bank	—	—	1,545	—
Trade and other receivable	—	—	2,544	—
Trade and other payable	—	—	(14)	—
Net exposure arising from recognised assets and liabilities	—	—	4,075	—

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

(c) Foreign currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	The Group			
	2010		2009	
	Increase/ (decrease) in foreign exchange	**Increase/ (decrease) in profit after tax and retained profit**	Increase/ (decrease) in foreign exchange	Increase/ (decrease) in profit after tax and retained profit
		RMB'000		*RMB'000*
Renminbi	**5%**	**426**	5%	—
	(5%)	**(426)**	(5%)	—
Hong Kong Dollars	**5%**	**700**	5%	—
	(5%)	**(700)**	(5%)	—
United States Dollars	**5%**	**363**	5%	205
	(5%)	**(363)**	(5%)	(205)
Japanese Yen	**5%**	**74**	5%	—
	(5%)	**(74)**	(5%)	—

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

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

(c) Foreign currency risk *(continued)*

(ii) Sensitivity analysis *(continued)*

The sensitivity analysis assumes that the change in foreign exchange rate had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including intercompany payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2009.

(d) Fair values

In respect of cash and cash equivalents, restricted cash, trade and other receivables and trade and other payables, the carrying amounts approximate fair value due to the relatively short term or without fixed terms of repayment nature of these financial instruments.

Amount due to a subsidiary in the Company's balance sheet as at 31 December 2010 is interest-free and has no fixed terms of repayments. Given these terms, it is not meaningful to disclose fair values.

Upon initial recognition, 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 that 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 estimates, the fair value amount of preferred shares cannot be measured reliably, and therefore the fair value information of preferred shares as at 31 December 2010 has not been disclosed.

27 CAPITAL COMMITMENTS

At 31 December 2010, the Group had capital commitments for construction of property, plant and equipment as follows:

	2010 RMB'000	2009 RMB'000
Authorised and contracted for	98	4,474
Authorised but not contracted for	887	14,776
	985	19,250

28 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
Shandong Freda Pharmaceutical Group Company Limited (山東福瑞達醫藥集團公司 "SFP")	Preferred shareholder 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")	Under significant influence of SFP
Shandong Biopharmaceuticals Research Institute (山東省生物藥物研究院 "SBRI")	Under common control with SFP and 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")	Subsidiary of SFP and 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")	Subsidiary of SFP and effectively managed by key management personnel of Freda Biopharm
Shandong Freda Medical Devices Co., Ltd. (山東福瑞達醫療器械有限公司 "SFMD")	Subsidiary of SFP and effectively managed by key management personnel of Freda Biopharm
Linyi Freda Bio-chemicals Co., Ltd. (臨沂福瑞達生物化工有限公司 "LFB")	Subsidiary of SFP and effectively managed by key management personnel of Freda Biopharm

28 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:

	2010	2009
	RMB'000	*RMB'000*
Sales of HA and heparin products to		
–SB&L	**9,377**	16,807
–SFP	**167**	31
–SFB	**15**	32
–SBRI	**—**	24
–SVFP	**1**	5
	9,560	16,899
Sales of raw materials to LFB	**137**	—
Purchase of processed raw materials from LFB	**7,195**	—
Dividends on preferred shares paid to SFP	**7,271**	6,732
Income from rental of plant and related property management service from		
–SFP	**1,364**	—
–SFB	**418**	467
–SFMD	**575**	369
	2,357	836

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.

28 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:

	2010	2009
	RMB'000	*RMB'000*
Trade and other receivables		
–SFB	**405**	437
–SFMD	**—**	14
–SB&L	**1,000**	6,571
	1,405	7,022
Trade and other payables		
–LFB	**155**	—
–SBRI	**50**	50
	205	50
Preferred shares, including current portion		
–SFP	**53,044**	51,530

28 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(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:

	2010	2009
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	**4,510**	3,385
Contributions to retirement benefit schemes	**178**	175
	4,688	3,560

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).

29 POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2010:

(a) Dividends

Pursuant to a board resolution dated on 25 March 2011, the Company declared dividends of HKD 5,304,000 (equivalent to RMB 4,462,000) to its equity shareholders. Further details are disclosed in Note 24(b).

30 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as at 31 December 2010 to be AFI, which is incorporated in BVI.

31 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.

(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.

31 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(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.

(d) Withholding tax

Withholding tax is recognised on profits of Freda Biopharm which are to be distributed to its overseas holding company in the foreseeable future. Note 22(b) contains information on the unrecognised deferred tax liabilities relating to the undistributed profits of Freda Biopharm 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. Any significant change in the dividend policy of Freda Biopharm would result in adjustment in the amount of withholding tax charged to profit or loss for the period and deferred tax liabilities recognised as at balance sheet date.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

	Effective for accounting period beginning on or after
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
Amendment to IFRS 1, *First-time adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosures for first-time adopters*	1 July 2010
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
Revised IAS 24, *Related party disclosures*	1 January 2011
Amendments to IFRIC 14, *IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirements*	1 January 2011
Amendments to IFRS 1, *First-time adoption of International Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters*	1 July 2011
Amendments to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to IAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
IFRS 9, *Financial instruments* (2010) Basis for conclusions on IFRS 9 (2010) Implementation guidance on IFRS 9 (2010)	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments 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.

Group Financial Highlights

	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**153,661**	117,190	116,599	91,081	84,585
Profit from operations	**85,127**	69,091	65,137	54,366	56,579
Finance costs	**(8,785)**	(8,996)	(10,407)	(8,832)	(7,175)
Profit before taxation	**76,342**	60,095	54,730	45,534	49,404
Income tax	**(15,900)**	(9,407)	(10,883)	(4,923)	(5,754)
Profit for the year	**60,442**	50,688	43,847	40,611	43,650
Basic and diluted earnings per share (RMB)	**0.19**	0.16	0.14	0.13	0.14
Assets and liabilities					
Non-current assets	**122,459**	114,572	117,534	82,285	73,299
Current assets	**180,326**	131,023	97,488	60,307	46,631
Current liabilities	**29,520**	29,126	42,716	74,539	56,431
Total assets less current liabilities	**273,265**	216,469	172,306	68,053	63,499
Non-current liabilities	**49,396**	47,145	44,797	41,692	39,821
Net assets	**223,869**	169,324	127,509	26,361	23,678
Capital and reserves					
Share capital	**2,801**	2,801	2,801	400	400
Reserves	**221,068**	166,523	124,708	25,961	23,278
Total equity	**223,869**	169,324	127,509	26,361	23,678