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 2011

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EXECUTIVE DIRECTORS

Ms. Zhao Yan *(Chairman)*
Mr. Guo Jiajun *(Chief Executive Officer)*
Ms. Wang Aihua *(appointed on 15 September 2011)*

NON-EXECUTIVE DIRECTORS

Mr. Cheng Bo *(resigned on 15 September 2011)*

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

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Prince's Building
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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

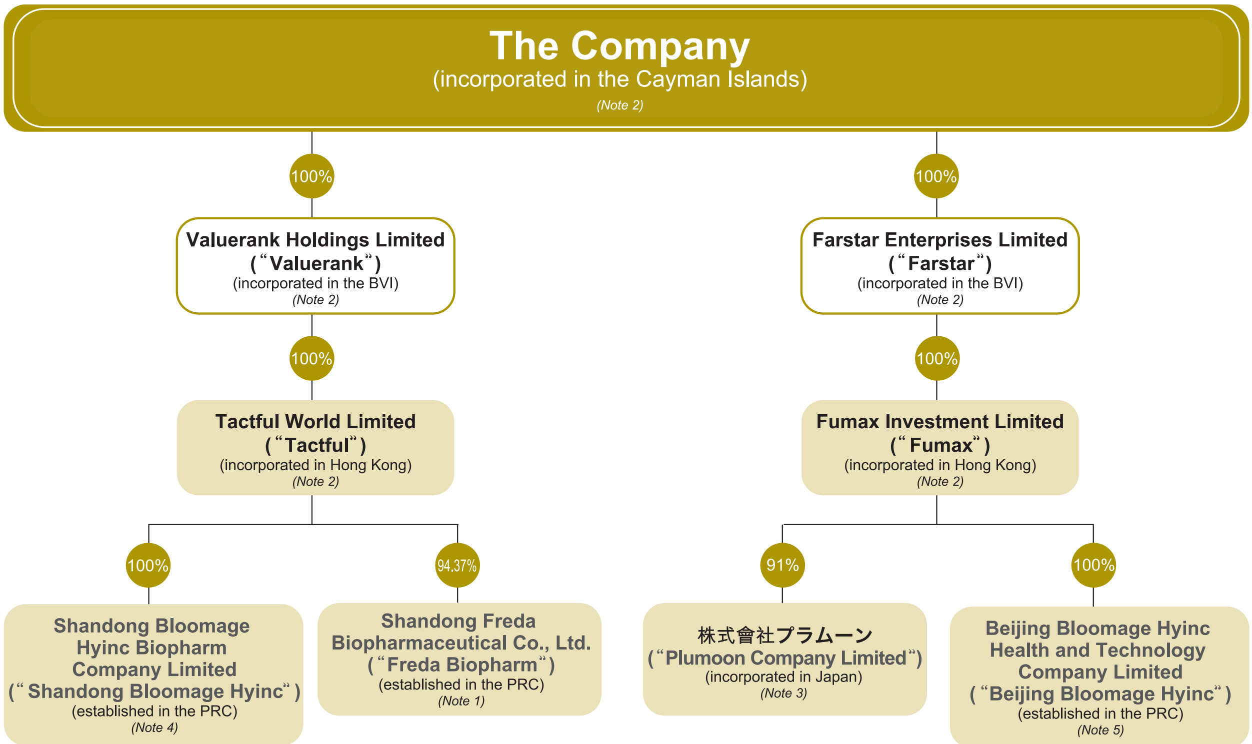
Agricultural Bank of China
Jinan Branch of the Bank of China

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 development, 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, usually in the joints, vitreous humor in the eyes, skin, 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 Group is principally engaged in the production and sale of various HA raw materials, and is actively developing HA end products. The HA raw materials products of the Group can generally be classified into five grades, namely injection grade, eye drop grade, cosmetic grade, food grade and HA oligosaccharide. For end products, the Group has successfully developed new products such as Medical Sodium Hyaluronate Gel for ophthalmologic use and Hyaluronan Soft Tissue Filling Gel (renamed in accordance with the supplementary notice for medical device registration issued by the centre for Medical Device Evaluation under State Food and Drug Administration on 28 September 2011, formerly known as soft tissue filler that makes use of cross-linked HA).

The Group always emphasizes the research and development work and continuously develops new products, new technologies and new processes. Under the increasing market competition, the Group continues to reduce production costs and broaden the product line in order to ensure the profitability of the Group. 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 five grades of HA products mentioned above, and has also developed the new HA oligosaccharide product. With an aim at increasing the Group's revenue base, the Group will continue the expansion of injection grade and food grade HA markets while maintaining its strong foothold in the cosmetic grade and eye drop grade markets. At the same time, the Group will promote the new HA oligosaccharide product and expedite the development of HA end products in order to achieve its continuous development.

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. Plumoon Company Limited ("Plumoon") was incorporated on 14 February 2011. The principal activities of Plumoon are investment holding and production and sale of HA end products.

4. Shandong Bloomage Hyinc was established on 14 December 2011. The principal activities of Shandong Bloomage Hyinc are to be the production and development of bio-chemical products.

5. Beijing Bloomage Hyinc was established on 15 December 2011. The principal activities of Beijing Bloomage are to be the sales of bio-chemical products and medical instruments.

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 2011. The Group achieved a satisfactory result in 2011. The annual turnover amounted to RMB206,064,000, representing an increase of 34.1% as compared to 2010 and the profits attributable to shareholders was RMB72,628,000 with a growth of 20.2% as compared to 2010.

FINAL DIVIDEND AND CLOSURE OF REGISTER

The Board has recommended the payment of a final dividend of HK1.1 cents per share of the Company (the "Share") for the year ended 31 December 2011 (2010: HK1.7 cents per Share). Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting (the "AGM") of the Company to be held on 18 May 2012 or any adjourned meeting, the above dividend is expected to be paid on or around 13 June 2012.

The transfer books and register of members of the Company will be closed from 15 May 2012 to 18 May 2012 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, 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 4:30p.m. on 14 May 2012. In addition, the transfer books and register of members of the Company will be closed from 24 May 2012 to 28 May 2012 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to the proposed final dividend (if approved at the AGM). In order to qualify for the proposed final dividend, 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, for registration no later than 4:30p.m. on 23 May 2012. During such periods, no share transfers will be effected.

BUSINESS REVIEW

The Group continues to achieve good progress in the year of 2011. Net profit for the year amounted to RMB72,625,000, representing an increase of 20.2% as compared to the year of 2010. The increase was primarily attributable to the Group's international, professional and personalized strategy of which the sales policy was implemented based on the characteristics of the customers. While maintaining the continuous increase in market share of cosmetic grade products and exploring the international market for food grade products, the Group increased the sales by focusing on high value added products of eye drop grade HA and injection grade HA. Besides, the Group has also developed the new product HA oligosaccharide to expand business scale and further increase the competitiveness within the industry.

Although the global economic situation was affected by the European financial crisis in 2011, the Group achieved a significant growth in both domestic and overseas sales. For the marketing strategy, the Group focused on strengthening the relationship with renowned customers in order to further enhance brand influence. The Group cooperated with existing customers for research and development projects on new products in order to explore new application of HA and business opportunities. Besides, the Group strengthened the promotion on HA new products so as to increase the market share of HA and hence sales of all grades of HA products.

In 2011, the Group further expedited the research and development process for new HA technologies and products. Through the continuous optimization and improvement of HA production technologies, our product quality and production yield maintained at a world leading level.

In 2011, the Group also achieved good progress in corporate qualification. For HA raw materials, the Group had obtained Ecocert certification, Kosher certification and Halal certification. The markets of products of the Group could be broadened with these certifications. The Group also obtained European Certificate of Suitability ("CEP") for injection grade HA raw materials and PRC pharmaceutical raw materials production license for eye drop grade HA raw materials. These two qualifications could help to broaden the market coverage of the products of our Group in both international and domestic pharmaceutical markets and get the market advantage. In view of HA end products, the Group had obtained European Community Certificate for Medical Sodium Hyaluronate Gel for ophthalmologic use and for Hyaluronan Soft Tissue Filling Gel. In particular, the registration process of Medical Sodium Hyaluronate Gel for ophthalmologic use was also completed in Hong Kong.

In 2011, the Group set up Beijing Bloomage Hyinc Health and Technology Co., Ltd. for the expansion of the sales of HA end products and Shandong Bloomage Hyinc Biopharm Co., Ltd. for the proposed development of a biological industrial park.

As a result of the effective strategy implementation, the Group had achieved an increasing operating result in 2011 and sustained a continuous business growth.

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 enrich and extend product lines of HA raw materials and end products with full expansion in the market". The Group will continue to put the development of new technologies and new products as a top priority, and expedite the development and promotion of HA raw materials and end products. In order to achieve sustainable growth of the business, the Group will broaden the HA application and extend the industry chain to end products.

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
23 March 2012

BUSINESS REVIEW

The Group is a leading manufacturer of Hyaluronic Acid ("HA") products in the PRC. HA is a natural substance found in many parts of human body 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 five grades according to its 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; food grade applied in healthcare products such as oral health supplements; and new product HA oligosaccharide applied in cosmetic products, pharmaceutical products, food and healthcare products. The Group is principally engaged in the production and sale of various HA raw materials, and is actively developing HA end products. The Group has successfully developed new HA end products such as Medical Sodium Hyaluronate Gel for ophthalmologic use and Hyaluronan Soft Tissue Filling Gel (renamed in accordance with the suppplementary notice for medical device registration issued by the centre for Medical Device Evaluation under State Food and Drug Administration on 28 September 2011, formerly known as soft tissue filler that makes use of cross-linked HA).

In 2011, in view of the growing medical demand and the need for improving health standard of citizens, the PRC government had accelerated the restructuring of the pharmaceutical industry by implementing series of measures to encourage independent innovation, promoting the development of new products and new technology, fostering large enterprises, improving quality of corporations and international competitiveness. Under this favourable environment for development, the Group seized the opportunity to formulate aggressive development and marketing strategies with the improvement of organizational structure and expansion of the sales network in order to strengthen the promotion of application of HA-related products in domestic medical field. Although the international economic situation was affected by the European financial crisis, together with the increasing competition within the industry, the Group has overcome the difficulties by maintaining excellent product quality and brand image. In 2011, the Group archived an increased sales in both domestic and international markets and continued to record a sustainable growth in business and operating results through the implementation of effective marketing strategies.

The Group's annual turnover amounted to RMB206,064,000 in 2011, representing an increase of 34.1% as compared to 2010. The Group's gross profits increased by 25.2% from RMB120,560,000 in 2010 to RMB150,890,000 in 2011 and the profits attributable to equity shareholders of the Company increased by 20.2% from RMB60,442,000 in 2010 to RMB72,628,000 in 2011. 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 HK1.1 cents per share for the year ended 31 December 2011 (2010: HK1.7 cents per share) to the Shareholders whose names appear on the register of members of the Company on 28 May 2012, amounting to approximately HK$3,432,000 in total.

Implementation of brand strategy, marketing enhancement and sales expansion

With advanced technology and quality control of HA in the production process of the Group, the Group has further enhanced the relationship and cooperation with customers with strong purchasing power so as to stimulate the cooperation with other customers and enhance the brand image and sales volume. The Group aimed for a full range of expansion by expanding into new markets and through the promotion of new usage of eye drop grade HA in contact lens lubrication, eye care lotion and xerophthalmia treatment lotion, the reinforcement of the promotion of the use of new product HA oligosaccharide and the development of the application of HA in healthcare food and normal food. In consideration of the characteristics of domestic customers and international customers of different regions, the Group designed and implemented appropriate sales strategies in order to expand the customer base. While maintaining the continuous increase in market share of cosmetic grade products, the Group further explored the international market in food grade products and increased the sales of high value-added medical HA products. By the above strategies, together with the effective development and management of its agents, and establishment of sales channels, compared with 2010, both domestic and international sales of the Group increased significantly in 2011.

In order to consolidate and further improve HA market share, the Group increased efforts to expand into both domestic and international markets by establishing domestic VIP customers conference, products seminars and enhancing market research and customers communication through professional exhibition and academic conferences. Through professional and effective promotional techniques, the Group demonstrated to HA customers its strength and further consolidated its leading position in the HA sector and created a broader platform for the expansion of HA business in both domestic and overseas markets.

R&D enhancement, product registration and corporate qualification enhancement

Technological research and development ("R&D") has always been the key element of the Group's sustainability. The Group expedited the R&D of new HA related techniques, new functions and new products. Besides, the Group had broadened the application of HA raw materials, developed HA series end products, enriched the product lines and driven to explore the new market and new revenue base in the future. In order to enrich the varieties of HA raw materials, to extend HA end products and to expand sales channels, the Group's strategy was to increase effort in product registration and qualification enhancement.

In 2011, the Group had successfully developed a new technique"production of Low Molecular Weight-HA and HA Oligosaccharide by enzyme degradation" and launched a new product-miniHA. The quality and process advantage of this new product will form the basis for enhancing the competitiveness of the Group's products. Injection grade HA raw materials products had obtained European Certificate of Suitability ("CEP") and therefore the Group had obtained the prerequisite for getting into the European market, which will accelerate the Group's expansion into the European market. HA raw materials products had obtained the PRC pharmaceutical raw materials production license and passed the PRC Good Manufacturing Practice ("GMP") inspection. In view of HA end products, Hyaluronan Soft Tissue Filling Gel and Medical Sodium

Hyaluronate Gel for ophthalmologic use had both obtained European Community Certificate and such has provided the basis for the product sales as well as market expansion in Europe. Medical Sodium Hyaluronate Gel for ophthalmologic use had also completed the registration process in Hong Kong. Besides, these two products had passed the PRC GMP on-site review for domestic medical device and the Group has become the first enterprise in Shandong Province which passed the domestic medical device GMP certification in the history of this certificate. The pharmaceutical products license of injection grade HA was under final review stage by the PRC government. Besides, samples of high-purity HA oligosaccharide and Sodium Hyaluronate Lubricant had been successfully prepa red under the R&D projects of the Group. Product features and application research project, namely "Research on Efficacy of Different Categories of HA Applied in Cosmetic Products" had achieved good progress.

In order to increase the scope of usage of the products and increase the product quality, the Group obtained Kosher certification, Halal certification and Ecocert certificate in 2011, which has provided a solid basis for the expansion of the Group into food grade and cosmetic grade products markets. In view of the HA brand image in the domestic market, the PRC government invited the Group to draft the industry standand for Hyaluronan Soft Tissue Filling Gel and Medical Sodium Hyaluronate Gel for ophthalmologic use.

In 2011, through the R&D of new HA production technologies and the improvement of production equipments, the Group had continuously increased the product yield rate and reduced the production costs. The project "The Improvement of HA Oligosaccharide Production Techniques" was awarded by Jinan City as an outstanding innovation project.

Formation of new companies and factory, upgrade of R&D center and enhancement of the capacity of development

In order to meet the needs of rapid development and the ability to enhance a sustainable growth of the Group, the Group had set up Beijing Bloomage Hyinc Health and Technology Co., Ltd., a wholly-owned subsidiary of the Group, on 15 December 2011 in Beijing, the PRC for the further expansion of the sales of HA end products. Besides, the Group had set up Shandong Bloomage Hyinc Biopharm Co., Ltd., a wholly-owned subsidiary of the Group, on 14 December 2011 in Shandong, the PRC for the proposed development of a biological industrial park which could help to expand production capacity. Besides, the Group is planning to build a new integrated R&D center in order to enhance the R&D capabilities and ensure the future sustainable development of the Group.

The Company will make further announcement(s) when the above-mentioned proposal and plan materialize in accordance with the requirement of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

BUSINESS OUTLOOK

The Group aims at becoming a leading HA manufacturer in the international market in terms of product volume, quality, and R&D capabilities by leveraging on its principal strengths and by implementing the following strategies:

Brand strategy and expanding sales

In 2012, the Group will continue to carry on its brand strategy. While maintaining the advantages of existing domestic market share, the Group will enhance the development of overseas market by strengthening the research in international markets and cooperating with overseas agents in order to attract new customers and maintain healthy growth in HA sales. The Group intends to increase its shares in the target markets through reinforcement of its publicity and extensive promotion by participation in exhibitions and plane advertisements and explores opportunities for the growth in sales. The Group will also drive the sales of end products, such as, Hyaluronan Soft Tissue Filling Gel and Medical Sodium Hyaluronate Gel for ophthalmologic use along with the obtaining of domestic and overseas certificates for these products.

R&D enhancement and product competitiveness improvement

In 2012, the Group will continue to enhance the R&D and the technological improvement of HA production in order to improve the product quality, increase the product yield rate and reduce the production costs. This would also help the Group to maintain high level of technological standard and strengthening the competitiveness of the products. Implementation of systematic research on HA application will help the Group provide comprehensive technical support for the products. The Group considers the development of new products as top priority. While continuing the existing R&D projects, the Group plans to initiate a HA pharmacy platform project, in particular the research on external use of pharmaceutical preparation matrix. The Group will continue the development of HA related end products, enrich the categories and varieties of products and formulation of Hyaluronan Soft Tissue Filling Gel products into series. The Group will further drive the promotion of diversification of medical HA products and research on HA derivatives in order to broaden the product mix.

Expand the scope of quality certification and broaden market coverage

With an aim to expedite the international promotion of HA raw materials products and broaden the scope of the end products to be launched, the Group will focus to speed up a range of applications for product registration and quality certification in 2012. The Group will expedite the domestic registration of HA injection raw materials medication and HA end products, proceed with the certification of multi-level HA pharmaceutical raw materials under European CEP, United States DMF and other countries such as Korea and India. Besides, the Group will continue the international certification of Hyaluronan Soft Tissue Filling Gel in order to obtain the qualification for entering into certain target markets.

Team building reinforcement and enhancement of sales and research capabilities

In consideration of the increasing competition in the HA industry, the Group will encounter great challenges. In order to enhance the research and sales capabilities and to maintain the existing product and sales advantages, the Group will reinforce the team building process by building a talent pool system, which encourages and attracts more high-end professional R&D personnel to participate in the training so that a complete R&D institution can be formed in 2012. Besides, the Group will form and train up a sales team with solid professional standard, challenging spirit and strong marketing and promotion skills to assist the Group strengthen market researches on HA related products with a reasonable sale and operating model to be set up in order to develop effective marketing programs to expand both domestic and overseas market of the Group.

FINANCIAL REVIEW

Turnover

The Group's turnover for the year 2011 was RMB206.064 million, representing an increase of 34.1% or RMB52.403 million as compared to 2010. 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			
	2011		2010	
	RMB'000	**%**	RMB'000	%
Injection	**17,657**	**8.6**	15,953	10.4
Eye drop	**36,403**	**17.6**	21,951	14.3
Cosmetic	**122,735**	**59.6**	99,550	64.8
Food	**23,893**	**11.6**	15,324	10.0
HA oligosaccharide	**5,015**	**2.4**	—	—
Other	**361**	**0.2**	883	0.5
Total	**206,064**	**100.0**	153,661	100.0

Cost of sales

Cost of sales for the year ended 31 December 2011 was approximately RMB55.174 million, representing an increase of approximately 66.7% as compared to approximately RMB33.101 million for 2010. The increase was mainly attributable to the increase in sales volume.

Gross profit margin

The Group's gross profit margin for the year 2011 decreased slightly to 73.2% from 78.5% in 2010. The decrease was mainly due to the decrease of unit sale price which was in line with the Group's marketing strategy and the increase in the purchase price of raw materials.

Other revenue

Other revenue of the Group was RMB5.288 million for the year 2011, representing a decrease of 14.2% from approximately RMB6.161 million for the year 2010. The decrease in other revenue was mainly attributable to the decrease in the government grants received as compared to 2010.

Distribution costs

The Group's distribution costs for the year 2011 were approximately RMB19.367 million, representing an increase of approximately 33.1% from approximately RMB14.555 million for the year 2010. The increase was in line with the increase in total sales volume and especially the increase in export sales in 2011.

Administrative expenses

The Group's administrative expenses for the year 2011 were approximately RMB29.036 million, representing an increase of approximately 15.5% from approximately RMB25.150 million for the year 2010. The increase in administrative expenses was mainly due to the increase in staff cost resulted from salary increment and the recruitment of additional staff, as well as the increase in R&D expenses relating to development of new products.

Other operating expenses

The Group's other operating expenses for the year 2011 were approximately RMB1.868 million, representing a slight decrease of approximately 1.1% from approximately RMB1.889 million for the year 2010.

Finance costs

The Group's finance costs for the year 2011 were approximately RMB8.970 million, representing a slight increase of approximately 2.1% from approximately RMB8.785 million for the year 2010. The Group's finance costs represented the dividends on the preferred shares.

Profit for the year

The Group's profit for 2011 was approximately RMB72.625 million, representing an increase of approximately 20.2% from approximately RMB60.442 million for the year 2010.

Final dividend and closure of register

The Board proposed the payment of a final dividend of HK1.1 cents (2010: HK1.7 cents) per share to the Shareholders whose names appear on the register of members of the Company on 28 May 2012. Subject to the approval of the Shareholders at the AGM, it is expected that the final dividend will be paid on or around 13 June 2012.

The transfer books and register of members of the Company will be closed from 15 May 2012 to 18 May 2012 (both days inclusive) for the purpose of ascertaining Shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, 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 4:30p.m. on 14 May 2012. In addition, the transfer books and register of members of the Company will be closed from 24 May 2012 to 28 May 2012 (both days inclusive) for the purpose of ascertaining Shareholders' entitlement to the proposed final dividend (if approved at the AGM). In order to qualify for the proposed final dividend (if approved at the AGM), 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, for registration no later than 4:30p.m. on 23 May 2012. During such periods, no share transfers will be effected.

Liquidity, capital structure and financial resources

As at 31 December 2011, the Group had current assets of approximately RMB254.870 million (2010: RMB180.326 million) and current liabilities of approximately RMB43.983 million (2010: RMB29.520 million). The current ratio of the Group as at 31 December 2011 was approximately 579.5% (2010: 610.9%).

As at 31 December 2011, the Group had cash and cash equivalents of approximately RMB188.810 million (2010: RMB134.388 million), of which 82% (2010: 66%) was denominated in RMB, 15% (2010: 32%) in HK$, 2% (2010: 1%) in United States Dollars ("USD") and 1% (2010: 1%) in Japanese Yen ("JPY"). Total liabilities of the Group amounted to approximately RMB91.966 million (2010: RMB78.916 million) as at 31 December 2011.

As at 31 December 2011, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 24.1% (2010: 26.1%). The decrease in gearing ratio as at 31 December 2011 as compared to that as at 31 December 2010 was principally attributable to the increase in total assets resulted from the Group's business operation.

Net cash generated from operating activities for 2011 was approximately RMB82.856 million (2010: RMB74.869 million).

Net cash used in investing activities for 2011 was approximately RMB14.281 million (2010: RMB22.470 million), representing the capital expenditure in the enhancement of production facilities of the Group.

Net cash used in financing activities for 2011 was approximately RMB12.230 million (2010: RMB12.209 million), representing the payment of interest of preferred shares of RMB7.853 million and the payment of dividend to equity shareholders of approximately RMB4.462 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, USD and JPY, 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 had not adopted formal hedging policies and no instruments had been applied for foreign currency hedging purposes during the period under review.

Contingent liabilities

As at 31 December 2011, the Group had no contingent liabilities.

Capital commitment

As at 31 December 2011, the capital commitment of Group was approximately RMB10.217 million (2010: RMB0.985 million).

Employee information

As at 31 December 2011, the Group had 290 (2010: 247) employees, the majority of whom were stationed in the PRC. Total remuneration for 2011 amounted to RMB28.366 million (2010: RMB22.223 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 2011, 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 2011, 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 three executive Directors and three independent non-executive Directors.

EXECUTIVE DIRECTORS

Ms. Zhao Yan, aged 45, 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's 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") which hold 58.5% in the Company.

Mr. Guo Jiajun (Song), aged 36, is an executive Director and the Chief Executive Officer. He was graduated from Shandong University at Weihai (山東大學威海分校) in 1998 with a bachelor's degree in science 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. Mr. Guo 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). Mr. Guo 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. Mr. Guo is a director of Freda Biopharm. Mr. Guo joined the Group in March 2006.

Ms. Wang Aihua, aged 34, was appointed as executive Director on 15 September 2011. She graduated from Yanshan University (燕山大學) (formerly known as The Northeast Heavy Machinery Institute (東北重型機械學院)) in 1999 with a bachelor's degree in science major in international economic and trading. She further obtained a master of business administration degree from Yanshan University in 2004 with a major in the management science and engineering from 2001 to 2004. Ms. Wang worked as an analyst for Golden Credit Rating International Co., Ltd. from 2004 to 2007 and was responsible for analysis and assessment of company solvency and major loan projects. She had also been the secretary to the Chairman and the Manager of the overseas business department of Bloomage International Investments Group Inc. (formerly known as Bloomage Investments Co., Ltd.) ("Bloogmage International") since July 2007 up to September 2011. Bloomage International is an investment holding company and its subsidiaries 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. She is responsible for strategic development and capital management of the Group. Ms. Wang is a director of Shandong Freda Biopharmaceutical Co., Ltd. ("Freda Biopharm") and Beijing Bloomage Hyinc Health and Technology Co., Ltd., a wholly owned subsidiary of the Group and the supervisor of Shandong Bloomage Hyinc Biopharm Company Limited, a wholly-owned subsidiary of the Group and joined the Group in December 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Zhan Lili, aged 39, 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 electronics and information technology, environmental protection materials, property development and e-business, since 2007.

Mr. Zhang Fuping, aged 54, was appointed as an independent non-executive Director on 1 September 2008. He obtained an executive master degree in business administration 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. Mr. Qin 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 Corporationsince 2000, and is now the general manager of the research and development department of China Orient Asset Management Corporation (中國東方資產管理公司). During his employment with China Orient Asset Management Corporation, Mr. Qin has handled financial restructuring and debt-equity swap works for corporations, in which he has to use his expertise including accounting and corporate finance. Mr. Qin was a director of CNNC Hua Yuan Titanium Dioxide Co., Ltd (中核華原鈦白股份有限公司) ("CNNC"), a company subsequently listed on the Shenzhen Stock Exchange on 3 August 2007 which is principally engaged in the manufacture and sale of titanium dioxide, from February 2004 to May 2006. Save as disclosed above, he has not been a director of any listed companies in the past three years. During his directorship with CNNC, Mr. Qin has, as a member of the board of directors, participated in the exercise of the following powers, including formulation of annual budget, profit distribution proposal, merger and acquisition proposal, share repurchase proposal, issue of debentures or other securities of CNNC. With Mr. Qin's financial management experience and expertise and his educational background, the Directors believe that Mr. Qin possesses adequate financial management expertise as required under Rule 3.10(2) of the Listing Rules.

SENIOR MANAGEMENT

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

Ms. Liu Aihua, aged 49, is the general manager of Freda Biopharm. She was appointed as the vice general manager of the Company and the general manager of Shandong Bloomage Hyinc, a wholly owned subsidiary of the Group, since November 2011. Ms. Liu graduated from the pharmaceutical department of Shenyang Pharmaceutical University in 1983 with a bachelor's degree in science. Ms. Liu had worked for Jinan Yongning Pharmaceutical Ltd. during the period between August 1983 and July 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 August 1998 and December 2001. Ms. Liu has over 28 years' experience in both of pharmaceutical research and management. Ms. Liu is a director of Beijing Bloomage Hyinc and Shandong Bloomage Hyinc. She joined the Group in January 2002.

Mr. Guo Xueping, aged 47, is the vice general manager of Freda Biopharm. He was appointed as the vice general manager of the Company and the vice general manager of Shandong Bloomage Hyinc since November 2011. Mr. Guo graduated from the pharmaceutical department of Shandong Medical University with a master degree in 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. He was appointed as the director of Freda Biopharm since September 2011.

Mr. Wang Chunxi, aged 44, is the vice general manager of Freda Biopharm. Mr. Wang graduated from East China University of Science & Technology with a bachelor's degree in engineering 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.

Ms. Xu Guixin, aged 39, is the vice general manager of Freda Biopharm. Ms. Xu graduated from Shandong University in 1995 with a bachelor's degree in Biology. Ms. Xu worked as a district sales manager at Bausch & Lomb Freda from April 1997 to December 1999. She joined the Group in January 2000 as the sales manager and has 15 years' experience in pharmaceutical sales.

Mr. Lv wei, aged 36, is the financial controller of Freda Biopharm and a certified accountant in the PRC. Mr. Lv graduated from Shandong Economics College with accounting qualification. Mr. Lv worked in the audit division of Shandong Shuntianxincheng Certified Public Accountants (山東舜天信誠會計師事務所) from 2004 to 2007. He had worked as the chief officer of the audit department of Integrated Electronic Systems Lab Co., Ltd.(積成電子股份有限公司) from 2008 to February 2011. He joined the Group in March 2011.

Mr. Wang Hongyuan, aged 52, is the general manager of Beijing Bloomage Hyinc. He 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 in business administration by Fordham University of the United States in 2002. He had worked in Commerce Press directly under the Ministry of Commerce(商務部直屬商務出版社) (formerly known as the Ministry of Foreign Trade and Economic Co-operation)(原對外經濟貿易部)and was responsible for sales and administration of BusinessWeek(商業周刊／中文版) from 1987 to July 2011. Mr. Wang is a director of Beijing Bloomage Hyinc and Shandong Bloomage Hyinc. He joined the Group in August 2011 and was appointed as the general manager of Beijing Bloomage Hyinc since November 2011.

Mr. Yau Waiyan, aged 36, is the Financial Controller of the Company. Mr. Yau is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Yau graduated from the Hong Kong University of Science and Technology with a bachelor's degree in professional accounting. Prior to joining the Company, Mr. Yau has worked for an international accounting firm for over 10 years.

COMPANY SECRETARY

Mr. Loong Ping Kwan, aged 47, is the company secretary of the Company (the "Company Secretary"). 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 2011.

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 2011 are set out in the consolidated statement of comprehensive income on page 40.

Subject to approval by the shareholders at the AGM, the Directors recommended the payment of a final dividend of HK1.1 cents for the year ended 31 December 2011 to shareholders whose names appear on the register of members of the Company on 28 May 2012, amounting to approximately HK$3,432,000 in aggregate.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from 15 May 2012 to 18 May 2012 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, 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 4:30p.m. on 14 May 2012. In addition, the transfer books and register of members of the Company will be closed from 24 May 2012 to 28 May 2012 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to the proposed final dividend (if approved at the AGM). In order to qualify for the proposed final dividend (if approved at the AGM), 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, for registration no later than 4:30p.m. on 23 May 2012. During such periods, no share transfers will be effected.

GROUP FINANCIAL SUMMARY

The summary of the results of the Group for the five years ended 31 December 2011 and the assets and liabilities of the Group as at 31 December 2007, 2008, 2009, 2010 and 2011 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, less listing expenses, amounted to approximately HK$60 million. As at 31 December 2011, net proceeds were utilised as follows:

	HK$'000
Constructing the new production line for the manufacture of eye drop and injection grade HA products	16,319
Constructing the new production line for the manufacture of finished injection grade HA products which would be used as medical device	23,681
Improving research and development capability	8,000
Promotion and expansion of the Group's distribution network	12,000
Total	60,000

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)*
Ms. Wang Aihua *(appointed on 15 September 2011)*

Non-executive Director:

Mr. Cheng Bo *(resigned on 15 September 2011)*

Independent non-executive Directors

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

Each of Ms. Wang Aihua, Mr. Guo Jiajun and Mr. Qin Bin will retire at the AGM and, all being eligible, will offer themselves for re-election at the said meeting.

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

Ms. Wang Aihua has entered into a service contract for a term of two years commencing from 15 September 2011. Each of Ms. Zhao Yan and Mr. Guo Jiajun has entered into a service contract for a term of two years commencing from 3 October 2011. 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 independent non-executive Directors has entered into a service agreement with the Company for a term of two years commencing on 3 October 2011. Each of 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 AGM has a service contract with the Company, which is not determinable by the Company within one year without payment other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

SHARE OPTION SCHEME

As to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 3 September 2008 whereby the Board is 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 since the listing of the Company in 2008.

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

As at 31 December 2011, the interests and short positions of the Directors and/or chief executive of the Company in any shares, underlying shares (the"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%

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.

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

Name of Director	Name of associated corporation	Capacity	Number 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 2011, 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 2011, 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	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			
Managecorp Limited ("Managecorp") *(Note 4)*	Trustee of discretionary trust	28,080,000 (L)	9%
Mr. Cheng Bo *(Note 4)*	Founder of discretionary trust	28,080,000 (L)	9%
Newgrand Holdings Limited ("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) 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) The 28,080,000 Shares are beneficially owned by Newgrand, which is wholly-owned by Managecorp acting as the trustee of the discretionary trust set up by Mr. Cheng Bo. Accordingly, Managecorp, as the trustee of the discretionary trust, and Mr. Cheng Bo, as the founder of the discretionary trust, are deemed, or taken to be, interested in the 28,080,000 Shares under SFO.

(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 2011, the Directors 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 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.

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). The non-competition undertaking of Mr. Cheng ceased upon his resignation as a Director. Mr. Cheng resigned as a Director on 15 Sptember 2011. Ms. Zhao 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 2011, they had complied with their respective non-competition undertakings. Mr. Cheng confirmed that (i) he has provided all information necessary for the enforcement of his non-competition undertaking as requested by the Committee from time to time; and (ii) he had complied with his non-competition undertaking from 1 January 2011 to 15 Septemebr 2011. The Committee also confirmed that they were not aware of any non-compliance of the non-competition undertakings given by Ms. Zhao and Mr. Ling during the year ended 31 December 2011 and any non-compliance of the non-competition undertaking by Mr. Cheng from 1 January 2011 to 15 Septemebr 2011.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's sales to the largest and five largest customers accounted for approximately 13.9% and 38.7% respectively of the Group's turnover while the Group's purchase from the largest and five largest suppliers accounted for approximately 75.2% and 84.5% respectively of the Group's purchase.

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

CONTINUING CONNECTED TRANSACTIONS

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 years ended 31 December 2010 and 31 December 2011 were approximately RMB15,000 and RMB34,000, respectively. The Directors expected that the aggregate sales amount for the year ended 31 December 2012 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 27 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 2011, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for the pre-emptive rights under the articles of association of the Company, 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 2011.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set out in note 28 to the financial statements.

AUDITORS

The financial statements for the year ended 31 December 2011 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, 23 March 2012

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the code provisions set out in the Code contained in Appendix 14 to the Listing Rules. The Company had complied with the code provisions of the Code during the year ended 31 December 2011.

BOARD OF DIRECTORS

The Board currently comprises six Directors including three executive Directors and three independent non-executive Directors:

Executive Directors:

Ms. Zhao Yan *(Chairman)*
Mr. Guo Jiajun *(Chief Executive Officer)*
Ms. Wang Aihua *(appointed on 15 September 2011)*

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 of the Company (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 2011, the Board held nine meetings and the individual attendance of the Directors at the board meetings is as follows:

	Attendance/ Meeting held
Ms. Zhao Yan *(Chairman)*	9/9
Mr. Guo Jiajun *(Chief Executive Officer)*	8/9
Ms. Wang Aihua *(appointed on 15 September 2011)*	4/9
Mr. Cheng Bo *(resigned on 15 September 2011)*	4/9
Ms. Zhan Lili	5/9
Mr. Zhang Fuping	5/9
Mr. Qin Bin	5/9

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

Ms. Wang Aihua has entered into a service contract with the Company for a term of two years commencing from 15 September 2011. Each of Ms. Zhao Yan and Mr. Guo Jiajun has entered into a service contract with the Company for a term of two years commencing from 3 October 2011. 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 written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of two years commencing from 3 October 2011. Each of the independent non-executive Director and the Company may terminate the appointment at any time during the term by giving the other party at least one month's written notice.

Pursuant to Article 86 of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. 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.

Pursuant to Article 86, Ms. Wang Aihua and pursuant to Article 87, Mr. Guo Jiajun and Mr. Qin Bin 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 2011. Moreover, no incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

RESPONSIBILITIES OF DIRECTORS

All 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.

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 written terms of reference of the Audit Committee adopted by the Board are in line with the provisions of the Code and are available on the websites of the Company and the Stock Exchange.

During 2011, the Audit Committee has reviewed the Group's internal controls. The Group's final results for the year ended 31 December 2011 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 2011. 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 2011, 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	**2011**	2010
	RMB'000	*RMB'000*
Non-audit services	**16**	30
Audit services	**908**	879
	924	909

NOMINATION COMMITTEE

The primary duties of the momination 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 written terms of reference of the Nomination Committee adopted by the Board are in line with the provisions of the Code and are available on the websites of the Company and the Stock Exchange.

The Nomination Committee held two meetings during the year ended 31 December 2011. Details of the attendance of the Nomination Committee meeting are as follows:

	Attendance/ Meeting held
Mr. Zhang Fuping *(Chairman)*	2/2
Ms. Zhan Lili	2/2
Ms. Zhao Yan	2/2

At the meetings, the Nomination Committee reviewed the structure, size and composition of the Board, assessing the independence of independent non-executive Directors, the qualification of the proposed executive Director 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 on the websites of the Company and the Stock Exchange.

The Remuneration Committee held two meetings during the year ended 31 December 2011. Details of the attendance of the Remuneration Committee meeting are as follows:

	Attendance/ Meeting held
Ms. Zhan Lili *(Chairman)*	2/2
Mr. Zhang Fuping	2/2
Mr. Guo Jiajun	2/2

At the meetings, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages and performance of the Directors (including proposed executive Directors) for the year 2011.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2011. The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2011. 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 communication 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 18 May 2012.

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 40 to 101, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 2011 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

23 March 2012

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	**2011** *RMB'000*	2010 *RMB'000*
Turnover	4	**206,064**	153,661
Cost of sales		**(55,174)**	(33,101)
Gross profit		**150,890**	120,560
Other revenue	5	**5,288**	6,161
Distribution costs		**(19,367)**	(14,555)
Administrative expenses		**(29,036)**	(25,150)
Other operating expenses		**(1,868)**	(1,889)
Profit from operations		**105,907**	85,127
Finance costs	6(a)	**(8,970)**	(8,785)
Profit before taxation	6	**96,937**	76,342
Income tax	7(a)	**(24,312)**	(15,900)
Profit for the year		**72,625**	60,442
Other comprehensive income for the year:			
Exchange differences on translation of financial statements of foreign operations		**(1,887)**	(959)
Total comprehensive income for the year		**70,738**	59,483
Profit attributable to:			
Equity shareholders of the Company		**72,628**	60,442
Non-controlling interests		**(3)**	—
Profit for the year		**72,625**	60,442
Total comprehensive income attributable to:			
Equity shareholders of the Company		**70,735**	59,483
Non-controlling interests		**3**	—
Total comprehensive income for the year		**70,738**	59,483
Basic and diluted earnings per share (RMB)	11	**0.23**	0.19

The notes on pages 47 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 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment, net	12	**108,383**	109,830
Construction in progress	13	**6,672**	—
Intangible assets	14	**686**	774
Lease prepayments	15	**11,585**	11,855
Total non-current assets		**127,326**	122,459
Current assets			
Inventories	17	**30,416**	19,854
Trade and other receivables	18	**35,644**	22,532
Restricted cash	19	**—**	3,552
Cash and cash equivalents	19	**188,810**	134,388
Total current assets		**254,870**	180,326
Current liabilities			
Trade and other payables	20	**33,868**	19,292
Current portion of preferred shares	21	**8,480**	7,853
Income tax payable	22(a)	**1,635**	2,375
Total current liabilities		**43,983**	29,520
Net current assets		**210,887**	150,806
Total assets less current liabilities		**338,213**	273,265
Non-current liabilities			
Deferred income	23	**1,755**	1,805
Deferred tax liabilities	22(b)	**547**	2,400
Preferred shares	21	**45,681**	45,191
Total non-current liabilities		**47,983**	49,396
NET ASSETS		**290,230**	223,869

The notes on pages 47 to101 form part of these financial statements.

Consolidated Balance Sheet (Continued)

at 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
CAPTIAL AND RESERVES			
Share capital	24(c)	**2,801**	2,801
Reserves	24(d)	**287,341**	221,068
Total equity attributable to equity shareholders of the Company		**290,142**	223,869
Non-controlling interests		**88**	—
TOTAL EQUITY		**290,230**	223,869

Approved and authorised for issue by the board of directors on 23 March 2012.

Zhao Yan
Director

Guo Jiajun
Director

The notes on pages 47 to 101 form part of these financial statements.

Balance Sheet

at 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Investments in subsidiaries	16	**33,543**	35,206
Other receivables	18(b)	**49,746**	47,108
Total non-current assets		**83,289**	82,314
Current assets			
Other receivables	18(a)	**245**	257
Cash and cash equivalents	19	**776**	7,069
Total current assets		**1,021**	7,326
Current liabilities			
Amount due to a subsidiary	20	**1,396**	1,465
Accrued expenses and other payables	20	**23**	385
Total current liabilities		**1,419**	1,850
Net current (liabilities)/assets		**(398)**	5,476
NET ASSETS		**82,891**	87,790
CAPTIAL AND RESERVES			
Share capital	24(a)	**2,801**	2,801
Reserves	24(a)	**80,090**	84,989
TOTAL EQUITY		**82,891**	87,790

Approved and authorised for issue by the board of directors on 23 March 2012.

Zhao Yan
Director

Guo Jiajun
Director

The notes on pages 47 to 101 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Note	Attributable to equity shareholders of the Company								
		Share capital	Share premium	Statutory reserves	Other reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*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	—	169,324
Changes in equity for 2010:										
Profit for the year		—	—	—	—	—	60,442	60,442	—	60,442
Other comprehensive income		—	—	—	—	(959)	—	(959)	—	(959)
Total comprehensive income for the year		—	—	—	—	(959)	60,442	59,483	—	59,483
Appropriation to statutory reserves		—	—	7,225	—	—	(7,225)	—	—	—
Dividends for the year ended 31 December 2009	24(b)	—	—	—	—	—	(4,938)	(4,938)	—	(4,938)
Transactions with equity holders of the Group		—	—	7,225	—	—	(12,163)	(4,938)	—	(4,938)
Balance at 31 December 2010		2,801	50,187	18,166	21,210	(667)	132,172	223,869	—	223,869

The notes on pages 47 to 101 form part of these financial statements.

	Note	Attributable to equity shareholders of the Company								
		Share capital RMB'000	Share premium RMB'000 24(d)(i)	Statutory reserves RMB'000 24(d)(ii)	Other reserve RMB'000 24(d)(iii)	Exchange reserve RMB'000 24(d)(iv)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011		2,801	50,187	18,166	21,210	(667)	132,172	223,869	—	223,869
Changes in equity for 2011:										
Profit for the year		—	—	—	—	—	72,628	72,628	(3)	72,625
Other comprehensive income		—	—	—	—	(1,893)	—	(1,893)	6	(1,887)
Total comprehensive income for the year		—	—	—	—	(1,893)	72,628	70,735	3	70,738
Contribution from non-controlling interests		—	—	—	—	—	—	—	85	85
Appropriation to statutory reserves		—	—	6,175	—	—	(6,175)	—	—	—
Dividends for the year ended 31 December 2010	24(b)	—	—	—	—	—	(4,462)	(4,462)	—	(4,462)
Transactions with equity holders of the Group		—	—	6,175	—	—	(10,637)	(4,462)	85	(4,377)
Balance at 31 December 2011		2,801	50,187	24,341	21,210	(2,560)	194,163	290,142	88	290,230

The notes on pages 47 to 101 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Cash generated from operations	19(b)	**108,611**	89,242
PRC income tax paid		**(26,905)**	(14,890)
Interest received		**1,150**	517
Net cash generated from operating activities		**82,856**	74,869
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress and intangible assets		**(14,381)**	(22,470)
Proceeds from disposal of property, plant and equipment		**100**	—
Net cash used in investing activities		**(14,281)**	(22,470)
Financing activities			
Contribution from non-controlling interests		**85**	—
Dividends paid on preferred shares		**(7,853)**	(7,271)
Dividends paid to equity shareholders of the Company		**(4,462)**	(4,938)
Net cash used in financing activities		**(12,230)**	(12,209)
Net increase in cash and cash equivalents		**56,345**	40,190
Cash and cash equivalents at 1 January		**134,388**	95,282
Effect of foreign exchange rate changes		**(1,923)**	(1,084)
Cash and cash equivalents at 31 December	19(a)	**188,810**	134,388

The notes on pages 47 to 101 form part of these 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 2011 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 2(c) 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 2011 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 3.

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 ("HKD").

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation 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:

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The impacts of the developments are discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that Shandong Bausch & Lomb Freda Pharmaceutical Co., Ltd. ("SB&L") is no longer a related party to the Group, as SB&L and Freda Biopharm are under significant influence of Shandong Freda Pharmaceuticals Group Company Limited ("SFP"), the holder of the preferred shares of Freda Biopharm, with no presence of control or joint control in at least one leg of the indirect relationship. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in Note 25 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet statement within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) 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(h)).

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(h)). 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)*

(f) 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(h)).

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	2-10 years

Both the period and method of amortisation are reviewed annually.

(g) 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(h)). Amortisation is charged to profit or loss on a straight-line basis over the lease period of land use rights.

(h) 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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(i) Impairment of investments in equity securities and 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(h)(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(h)(ii).

– For trade and other current receivables 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)*

(h) 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.

– 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, 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(h)(i) and (ii)).

(i) 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.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interests method, less allowance for impairment of doubtful debts (see Note 2(h)), except where the receivables are interest-free loans 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) 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.

(l) 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 holder of the preferred shares, 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(k) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

(m) 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.

(n) 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)*

(o) 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.

(p) 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)*

(p) 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) 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.

(q) 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)*

(r) 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)*

(s) 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.

(t) 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.

(u) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Related parties *(continued)*

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third entity.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(v) 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 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.

(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.

3 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(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 such 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 the balance sheet date.

4 TURNOVER AND SEGMENT REPORTING

(a) 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.

	2011	2010
	RMB'000	*RMB'000*
Hyaluronic acid ("HA") products	**205,703**	152,778
Heparin products	**17**	328
Others	**344**	555
	206,064	153,661

The Group's customer base is diversified and includes only one (2010: two) customer with whom transactions have exceeded 10% of the Group's revenues. In 2011, revenues from sales of HA products to this customer, including sales to entities which are known to the Group to be under common control with this customer amounted to approximately RMB 28,571,000 (2010: RMB 37,748,000) 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 25(a).

(b) 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 2011, 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.

4 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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 2011 and the reconciliation of reportable segment revenues and profit or loss are set out below.

	Year ended 31 December 2011				
	Domestic	**Overseas**			**Total**
		Asia	**Americas**	**Others**	
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Turnover	**124,412**	**29,428**	**27,171**	**25,053**	**206,064**
Segment results	**99,728**	**19,220**	**14,295**	**15,244**	**148,487**
Unallocated income and expenses					**(42,580)**
Profit from operations					**105,907**
Finance costs					**(8,970)**
Income tax					**(24,312)**
Profit for the year					**72,625**

	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

5 OTHER REVENUE

	Note	2011 RMB'000	2010 RMB'000
Government grants	(a)	**1,235**	3,180
Interest income		**1,150**	517
Rental income		**2,357**	2,357
Others		**546**	107
		5,288	6,161

(a) Government grants

The grants represented an award of RMB 735,000 received in the year ended 31 December 2011 in relation to the technical achievement on the research and development of HA products accomplished by Freda Biopharm and an incentive of RMB 500,000 received by Freda Biopharm in relation to its environmental protection achievement on sewage treatment (2010: an assistance 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).

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

	2011 RMB'000	2010 RMB'000
Dividends on preferred shares (Note 21)	**8,970**	8,785

(b) Staff costs

	2011 RMB'000	2010 RMB'000
Salaries, wages and other benefits	**26,471**	20,980
Contributions to defined contribution retirement plan	**1,895**	1,243
	28,366	22,223

Pursuant to the relevant labour rules and regulations in the PRC, the subsidiaries of the Group established in the PRC (the "PRC subsidiaries") participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby the PRC subsidiaries are required to make contributions to the Schemes at 21% (2010: 21%-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.

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

For those forfeited contributions under the Schemes and MPF Scheme, the amounts could not be used by the Group to reduce the existing level of contributions.

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	2011 RMB'000	2010 RMB'000
Amortisation			
– intangible assets		**88**	81
– lease prepayments		**270**	270
Auditors' remuneration		**924**	909
Depreciation		**9,652**	8,289
Net foreign exchange loss		**1,094**	985
Net loss on disposal of property, plant and equipment		**127**	637
Rental income		**(2,357)**	(2,357)
Operating lease charges in respect of leased plant and equipment		**250**	250
Research and development costs	(i)	**8,803**	7,769

(i) Research and development costs for the year ended 31 December 2011 included RMB 6,158,000 (2010: RMB 5,181,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately in Note 6(b) or above for each of these types of expenses.

7 INCOME TAX

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

	2011 RMB'000	2010 RMB'000
Current tax - PRC income tax		
Provision for the year (Note 22(a))	**26,165**	14,581
Deferred tax		
Origination and reversal of temporary difference	**(1,853)**	1,319
	24,312	15,900

7 INCOME TAX *(continued)*

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

	Note	**2011** **RMB'000**	2010 RMB'000
Profit before taxation		**96,937**	76,342
Expected tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	(i) and (v)	**24,774**	19,086
Tax effect of tax concession	(ii)	**(9,938)**	(7,635)
Tax effect of non-deductible expenses	(iii)	**1,897**	2,049
Tax effect of unused tax losses not recognised (Note 22(c))		**72**	—
Effect of withholding tax on the distributable profits of Freda Biopharm (Note 22(b))	(iv)	**7,507**	2,400
Income tax		**24,312**	15,900

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

(ii) Pursuant to the notice [Lu Ke Gao Zi (2009) No.12] and [Lu Ke Gao Zi (2011) No.206] issued by Department of Science & Technology of Shandong Province, Finance Bureau of Shandong Province, National Taxation Bureau of Shandong Province and Local Taxation Bureau of Shandong Province on 16 January 2009 and 31 October 2011, respectively, Freda Biopharm has satisfied certain conditions in the income tax law and was granted the qualification of advanced and new technology enterprise. Freda Biopharm was therefore entitled to a concession on PRC income tax of 10% for the three years from 1 January 2008 to 31 December 2010 and the concession was subsequently extended for the three years from 1 January 2011 to 31 December 2013. As a result, the applicable PRC income tax rate of Freda Biopharm for 2011 is 15% (2010: 15%).

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

7 INCOME TAX *(continued)*

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

(iv) Pursuant to the PRC income 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 or 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").

Under the Sino-Hong Kong Double Tax Arrangement and the relevant regulations, a Hong Kong company will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong company is the "beneficial owner" and holds 25% of equity interests or more of the Chinese company directly.

As approved by the National Taxation Bureau of Jinan City on 8 December 2011, Tactful World Limited ("Tactful"), a Hong Kong company as the equity holder of Freda Biopharm, is subject to a tax rate of 5% for the dividends received from Freda Biopharm after 8 December 2011. For the dividends received by Tactful before 8 December 2011, the applicable tax rate was 10%.

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

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2011			
	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chairman				
Zhao Yan	—	128	—	128
Executive directors				
Guo Jiajun	—	170	—	170
Wang Aihua (appointed on 15 September 2011)	—	48	—	48
Non-executive director				
Cheng Bo (resigned on 15 September 2011)	60	—	—	60
Independent non-executive directors				
Qin Bin	68	—	—	68
Zhan Lili	68	—	—	68
Zhang Fuping	16	—	—	16
	212	346	—	558

8 DIRECTORS' REMUNERATION *(continued)*

	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

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 (2010: none) are directors of the Company. Details of remuneration paid to the five (2010: five) highest paid individuals of the Group are as follows:

	2011	2010
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	**1,772**	2,187
Bonus	**1,060**	820
Contributions to retirement benefit schemes	**126**	114
	2,958	3,121

The emoluments of these individuals are within the following bands:

	2011	2010
HKD Nil ~ HKD 1,000,000	**5**	4
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 2,177,000 (2010: RMB 1,859,000) 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:

	2011	2010
	RMB'000	*RMB'000*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(2,177)**	(1,859)
Final dividends from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**6,001**	12,860
Company's profit for the year (Note 24(a))	**3,824**	11,001

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 ordinary equity shareholders of the Company for the year ended 31 December 2011 of RMB 72,628,000 (2010: RMB 60,442,000) and the ordinary shares in issue during the year ended 31 December 2011 of 312,000,000 shares (2010: 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 RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Total RMB'000
Cost:					
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
At 1 January 2011	**68,550**	**65,769**	**1,681**	**3,260**	**139,260**
Additions	**4**	**4,119**	**1,134**	**436**	**5,693**
Transferred from construction in progress (Note 13)	**—**	**2,728**	**—**	**11**	**2,739**
Disposals	**—**	**(468)**	**—**	**(41)**	**(509)**
At 31 December 2011	**68,554**	**72,148**	**2,815**	**3,666**	**147,183**
Accumulated depreciation:					
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
At 1 January 2011	**11,278**	**15,404**	**908**	**1,840**	**29,430**
Charge for the year	**3,060**	**5,964**	**224**	**404**	**9,652**
Written back on disposal	**—**	**(248)**	**—**	**(34)**	**(282)**
At 31 December 2011	**14,338**	**21,120**	**1,132**	**2,210**	**38,800**
Net book value:					
At 31 December 2010	57,272	50,365	773	1,420	109,830
At 31 December 2011	**54,216**	**51,028**	**1,683**	**1,456**	**108,383**

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

All the Group's property, plant and equipment are located in the PRC. As at 31 December 2011, property certificates of certain properties of the Group with an aggregate net book value of RMB 419,000 (31 December 2010: RMB 453,000) are yet to be obtained. Management expects that the related certificates will be obtained within one year.

(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 27(a)) under operating leases. The leases run for a period of three years. None of the leases includes contingent rentals. The directors of the Company 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:

	2011	2010
	RMB'000	*RMB'000*
Within 1 year	**1,939**	2,357
After 1 year but within 5 years	**—**	1,939
	1,939	4,296

13 CONSTRUCTION IN PROGRESS

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**—**	630
Additions	**9,411**	14,876
Transferred to property, plant and equipment (Note 12)	**(2,739)**	(15,506)
At 31 December	**6,672**	—

14 INTANGIBLE ASSETS

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Cost:		
At 1 January	**1,114**	814
Additions	**—**	300
At 31 December	**1,114**	1,114
Accumulated amortisation:		
At 1 January	**(340)**	(259)
Charge for the year	**(88)**	(81)
At 31 December	**(428)**	(340)
Net book value:		
At 31 December	**686**	774

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	
	2011	2010
	RMB'000	*RMB'000*
Cost:		
At 1 January/31 December	**13,497**	13,497
Accumulated amortisation:		
At 1 January	**(1,642)**	(1,372)
Charge for the year	**(270)**	(270)
At 31 December	**(1,912)**	(1,642)
Net book value:		
At 31 December	**11,585**	11,855

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	
	2011	2010
	RMB'000	*RMB'000*
Unlisted shares, at cost	**33,543**	35,206

Details of the subsidiaries at 31 December 2011 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	Effective percentage of equity attributable to the Company: 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

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

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
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
Plumoon Company Limited	Japan 14 February 2011	Japanese Yen ("JPY") 12,000,000/ JPY 12,000,000	—	91%	Investment holding and production and sale of HA end products
Beijing Bloomage Hyinc Health and Technology Company Limited	PRC 15 December 2011	RMB Nil/ RMB 20,000,000	—	100%	Sales of bio-chemical products and medical instruments
Shandong Bloomage Hyinc Biopharm Company Limited	PRC 14 December 2011	RMB 128,000,000/ RMB 200,000,000	—	100%	Production and development 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	
	2011	2010
	RMB'000	*RMB'000*
Raw materials and consumables	**2,849**	3,879
Work in progress	**4,796**	1,875
Finished goods	**22,771**	14,100
	30,416	19,854

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

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**55,174**	33,101

18 TRADE AND OTHER RECEIVABLES

(a) Current trade and other receivables

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**20,793**	16,772	**—**	—
Bills receivable	**10,830**	1,983	**—**	—
Prepayments and other receivables	**3,388**	3,765	**245**	257
Other receivables due from related parties	**633**	12	**—**	—
	35,644	22,532	**245**	257

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) Included in trade and other receivables are trade and bills receivables with the following ageing analysis as of the balance sheet date:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Current	**16,170**	14,235
1 to 3 months overdue	**10,312**	3,492
3 to 6 months overdue	**5,039**	944
6 months to 1 year overdue	**102**	84
	31,623	18,755

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 25(a).

As at 31 December 2011, the Group has no impairment losses on trade and other receivables (31 December 2010: 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	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**188,810**	137,940	**776**	7,069
Less: restricted cash (i)	**—**	(3,552)	**—**	—
Cash and cash equivalents	**188,810**	134,388	**776**	7,069

(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:

	2011	2010
	RMB'000	*RMB'000*
Profit before taxation	**96,937**	76,342
Adjustments for:		
Amortisation of intangible assets	**88**	81
Amortisation of lease prepayments	**270**	270
Depreciation	**9,652**	8,289
Dividends on preferred shares	**8,970**	8,785
Interest income	**(1,150)**	(517)
Net loss on disposal of property, plant and equipment	**127**	637
Changes in working capital:		
Increase in inventories	**(10,562)**	(7,227)
(Increase)/decrease in trade and other receivables	**(13,499)**	57
Increase in trade and other payables	**17,778**	2,525
Cash generated from operations	**108,611**	89,242

20 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**15,396**	1,502	**—**	—
Payables for construction of plant and purchase of equipment	**5,238**	8,490	**—**	—
Receipts in advance	**1,973**	706	**—**	—
Value added tax payable	**142**	284	**—**	—
Other payables due to related parties	**295**	50	**—**	—
Amount due to a subsidiary	**—**	—	**1,396**	1,465
Accrued expenses and other payables	**10,824**	8,260	**23**	385
	33,868	19,292	**1,419**	1,850

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	
	2011	2010
	RMB'000	*RMB'000*
Due within 1 month or on demand	**15,396**	1,502

21 PREFERRED SHARES

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**53,044**	51,530
Dividends during the year	**8,970**	8,785
Payment of dividends of preferred shares	**(7,853)**	(7,271)
	54,161	53,044
Less: current portion of preferred shares	**(8,480)**	(7,853)
	45,681	45,191

In connection with the Transformation, Valuerank and Farstar acquired the rights to the 25% equity interest in Freda Biopharm from SFP, the then non-controlling interests holder of Freda Biopharm, 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 the consolidated 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 the holder of the preferred shares

The present value of the amount due to the holder of the preferred shares of Freda Biopharm is repayable as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Within one year	**8,480**	7,853
After 1 year but within 5 years	**31,366**	29,043
After 5 years	**14,315**	16,148
	54,161	53,044

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	
	2011	2010
	RMB'000	*RMB'000*
Balance of PRC income tax relating to prior years	**2,375**	2,684
Provision for PRC income tax for the year (Note 7(a))	**26,165**	14,581
PRC income tax paid	**(26,905)**	(14,890)
	1,635	2,375

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

(b) Deferred tax liabilities recognised/not recognised:

Deferred tax liabilities as at 31 December 2011 and 31 December 2010 relate to the withholding tax as described in Notes 7(b)(iv) at the rate of 10% or 5% on the dividends declared or to be 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	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**2,400**	1,081
Charged to profit or loss	**7,507**	2,400
Reversal upon distribution of dividends	**(9,360)**	(1,081)
At 31 December	**547**	2,400

As at 31 December 2011, temporary differences relating to the undistributed profits of Freda Biopharm amounted to RMB 47,726,000 (31 December 2010: RMB 113,880,000). Deferred tax liabilities of RMB 1,839,000 (31 December 2010: RMB 9,988,000) 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:

In accordance with the accounting policy set out in Note 2(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB 287,000 (31 December 2010: RMB Nil) as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity. The tax losses will expire by 31 December 2016.

23 DEFERRED INCOME

Deferred income represents the unfulfilled conditional government grants received, which will be subsequently recognised as revenue in the consolidated 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:

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 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
Balance at 1 January 2011	**2,801**	**50,187**	**36,966**	**(3,331)**	**1,167**	**87,790**
Changes in equity for 2011:						
Profit for the year	**–**	**–**	**–**	**–**	**3,824**	**3,824**
Other comprehensive income	**–**	**–**	**–**	**(4,261)**	**–**	**(4,261)**
Total comprehensive income for the year	**–**	**–**	**–**	**(4,261)**	**3,824**	**(437)**
Dividends for the year ended 31 December 2010	**–**	**–**	**–**	**–**	**(4,462)**	**(4,462)**
Balance at 31 December 2011	**2,801**	**50,187**	**36,966**	**(7,592)**	**529**	**82,891**

(i) Contributed surplus represents the excess of fair value of the shares of the Company determined based on the basis of consolidated net assets of Valuerank and Farstar as at 10 April 2008, the date of the acquisition of shares of Valuerank and Farstar by the Company from AIM First Investment Limited ("AFI") and Newgrand Holdings Limited ("Newgrand") over the nominal value of the shares issued by the Company in exchange thereof. Under the Companies Law of Cayman Islands, the contributed surplus account of Company is distributable to the equity shareholders of the Company.

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

	2011 RMB'000	2010 RMB'000
Final dividends proposed after the balance sheet date of HK 1.1 cents per ordinary share (2010: HK 1.7 cents per ordinary share)	2,789	4,462

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

(c) Share capital

	2011		2010	
	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

	2011		2010	
	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 the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The transfers of these reserves are at discretion of the directors of the PRC subsidiaries. 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 2011 mainly includes:

i) the difference between the historical carrying value of the 25% equity interest right of Freda Biopharm then 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)*

(iii) Other reserve *(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 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB 80,090,000 (31 December 2010: RMB 84,989,000), excluding the share capital as disclosed in Note 24(c). After the balance sheet date, the directors proposed a final dividend of HK 1.1 cents per ordinary share (2010: HK 1.7 cents per ordinary share), amounting to HKD 3,432,000 (equivalent to RMB 2,789,000) (2010: HKD 5,304,000). 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 2011, the debt-to-equity ratio of the Group was 14% (31 December 2010: 18%), and the liability-to-asset ratio of the Group was 24% (31 December 2010: 26%).

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 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

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

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

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

At the balance sheet date, 28% (2010: Nil) and 36% (2010: 30%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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.

25 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 2011					
	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	33,868	33,868	33,868	—	—	—
Preferred shares	54,161	114,453	8,480	9,159	32,114	64,700
	88,029	148,321	42,348	9,159	32,114	64,700

	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

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

(b) Liquidity risk *(continued)*

Sensitivity analysis *(continued)*

The Company

	As at 31 December 2011			As at 31 December 2010		
	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	1,419	1,419	1,419	1,850	1,850	1,850

(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.

25 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 a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the balance sheet date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded. The Group did not hedge its foreign currency exposure during the year.

The Group

	2011 Exposure to Foreign currency (expressed in RMB)				
	Renminbi	Hong Kong Dollars	United States Dollars	Japanese Yen	Euros
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand and at bank	6,835	2,110	3,845	952	91
Trade and other receivable	—	—	5,781	170	—
Trade and other payable	(1,538)	—	(248)	(99)	—
Net exposure arising from recognised assets and liabilities	5,297	2,110	9,378	1,023	91

	2010 Exposure to Foreign currency (expressed in RMB)				
	Renminbi	Hong Kong Dollars	United States Dollars	Japanese Yen	Euros
	RMB'000	*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	—

25 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			
	2011		2010	
	Increase/ (decrease) in foreign exchange	**Increase/ (decrease) in profit after tax and retained profit** *RMB'000*	Increase/ (decrease) in foreign exchange	Increase/ (decrease) in profit after tax and retained profit *RMB'000*
Renminbi	**5%**	**265**	5%	426
	(5%)	**(265)**	(5%)	(426)
Hong Kong Dollars	**5%**	**90**	5%	700
	(5%)	**(90)**	(5%)	(700)
United States Dollars	**5%**	**403**	5%	363
	(5%)	**(403)**	(5%)	(363)
Japanese Yen	**5%**	**51**	5%	74
	(5%)	**(51)**	(5%)	(74)
Euros	**5%**	**5**	5%	—
	(5%)	**(5)**	(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.

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 2010.

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

(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 term of repayment nature of these financial instruments.

Amount due to a subsidiary in the Company's balance sheet as at 31 December 2011 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 2011 has not been disclosed.

26 CAPITAL COMMITMENTS

At 31 December 2011, the Group had capital commitments for construction of property, plant and equipment as follows:

	2011	2010
	RMB'000	*RMB'000*
Authorised and contracted for	**9,117**	98
Authorised but not contracted for	**1,100**	887
	10,217	985

27 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")	The holder of the preferred shares of Freda Biopharm
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
Shandong Freda Biotechnology Co., Ltd. (formerly "Linyi Freda Bio-chemicals Co., Ltd.) (山東福瑞達生物科技有限公司 (前稱「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
Beijing Bloomage Central Property Management Co., Ltd. (北京華熙中環物業管理有限公司"BBC")	Affiliate of an equity shareholder of the Company
Bloomage International Investment Group Inc. (華熙國際投資集團有限公司"BII")	Affiliate of an equity shareholder of the Company

27 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:

	2011	2010
	RMB'000	*RMB'000*
Sales of HA and heparin products to		
– SFP	—	167
– SFB	34	15
– SBRI	9	—
– SVFP	10	1
	53	183
Sales of raw materials to		
– LFB	321	137
– SBRI	2	—
	323	137
Purchase of raw materials from		
– LFB	26,524	7,195
– SFB	2	—
	26,526	7,195
Dividends on preferred shares paid to SFP	7,853	7,271
Income from rental of buildings and plant from		
– SFP	1,364	1,364
– SFB	418	418
– SFMD	575	575
	2,357	2,357
Advances received from		
– BBC	229	—
– BII	66	—
	295	—

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.

27 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:

	2011	2010
	RMB'000	*RMB'000*
Trade and other receivables		
– SFP	58	—
– SFB	—	405
– SFMD	575	—
	633	405
Trade and other payables		
– LFB	4,518	155
– SBRI	—	50
– BBC	229	—
– BII	66	—
	4,813	205
Preferred shares, including current portion		
– SFP	54,161	53,044

(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:

	2011	2010
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	3,628	4,510
Contributions to retirement benefit schemes	134	178
	3,762	4,688

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).

28 POST BALANCE SHEET EVENTS

Pursuant to a board resolution dated on 23 March 2012, the Company declared dividends of HKD 3,432,000 (equivalent to RMB 2,789,000) to its equity shareholders. Further details are disclosed in Note 24(b).

29 COMPARATIVE FIGURE

Certain comparative figures have been adjusted to conform to current year's presentation.

30 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company at 31 December 2011 to be AFI, which is incorporated in BVI.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments and interpretations and five new standard which are not yet effective for the year ended 31 December 2011 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
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
Amendments to IAS 1, *Presentation of financial statements - Presentation of items of other comprehensive income*	1 July 2012
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements* (2011)	1 January 2013
IAS 28, *Investments in associates and joint ventures* (2011)	1 January 2013
Revised IAS 19, *Employee benefits*	1 January 2013
IFRIC 20, *Stripping costs in the production phase of a surface mine*	1 January 2013
Amendments to IFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to IAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
IFRS 9, *Financial instruments* (2010)	1 January 2015
Amendments to IFRS 9, *Financial instruments* and IFRS 7, *Financial instruments: Disclosures – Mandatory effective date and transition disclosures*	1 January 2015

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

	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Results					
Turnover	**206,064**	153,661	117,190	116,599	91,081
Profit from operations	**105,907**	85,127	69,091	65,137	54,366
Finance costs	**(8,970)**	(8,785)	(8,996)	(10,407)	(8,832)
Profit before taxation	**96,937**	76,342	60,095	54,730	45,534
Income tax	**(24,312)**	(15,900)	(9,407)	(10,883)	(4,923)
Profit for the year	**72,625**	60,442	50,688	43,847	40,611
Basic and diluted earnings per share (RMB)	**0.23**	0.19	0.16	0.14	0.13
Assets and liabilities					
Non-current assets	**127,326**	122,459	114,572	117,534	82,285
Current assets	**254,870**	180,326	131,023	97,488	60,307
Current liabilities	**(43,983)**	(29,520)	(29,126)	(42,716)	(74,539)
Total assets less current liabilities	**338,213**	273,265	216,469	172,306	68,053
Non-current liabilities	**(47,983)**	(49,396)	(47,145)	(44,797)	(41,692)
Net assets	**290,230**	223,869	169,324	127,509	26,361
Capital and reserves					
Share capital	**2,801**	2,801	2,801	2,801	400
Reserves	**287,341**	221,068	166,523	124,708	25,961
Total equity attributable to equity shareholders of the Company	**290,142**	223,869	169,324	127,509	26,361
Non-controlling interests	**88**	—	—	—	—
Total equity	**290,230**	223,869	169,324	127,509	26,361