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 2012

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EXECUTIVE DIRECTORS

Ms. Zhao Yan *(Chairman)*
Ms. Liu Aihua *(appointed as Chief Executive Officer and Executive Director on 18 June 2012)*
Ms. Wang Aihua
Mr. Guo Jiajun *(resigned as Chief Executive Officer and Executive Director on 18 June 2012)*

NON-EXECUTIVE DIRECTOR

Mr. Guo Jiajun *(re-designated as Non-executive Director on 18 June 2012)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Zhan Lili
Mr. Zhang Fuping
Mr. Qin Bin
Mr. Jin Xuekun *(appointed as Independent Non-executive Director on 18 June 2012)*

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. Jin Xuekun *(appointed on 18 June 2012)*
Mr. Zhang Fuping *(resigned on 18 June 2012)*

MEMBERS OF REMUNERATION COMMITTEE

Mr. Jin Xuekun *(appointed as Chairman on 18 June 2012)*
Mr. Qin Bin *(appointed on 18 June 2012)*
Ms. Wang Aihua *(appointed on 18 June 2012)*
Ms. Zhan Lili *(resigned as Chairman and from remuneration committee on 18 June 2012)*
Mr. Guo Jiajun *(resigned on 18 June 2012)*
Mr. Zhang Fuping *(resigned on 18 June 2012)*

MEMBERS OF NOMINATION COMMITTEE

Mr. Zhang Fuping *(Chairman)*
Mr. Jin Xuekun *(appointed on 18 June 2012)*
Ms. Liu Aihua *(appointed on 18 June 2012)*
Ms. Zhao Yan *(resigned on 18 June 2012)*
Ms. Zhan Lili *(resigned on 18 June 2012)*

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

Corporate Information

AUDITORS

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

LEGAL ADVISERS AS TO HONG KONG LAWS

Loong & Yeung
Suites 2001-2005, 20/F
Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

00963

COMPANY WEBSITE

www.bloomagebio-tech.com

PRINCIPAL BANKERS

Agricultural Bank of China
Jinan Branch of the Bank of China

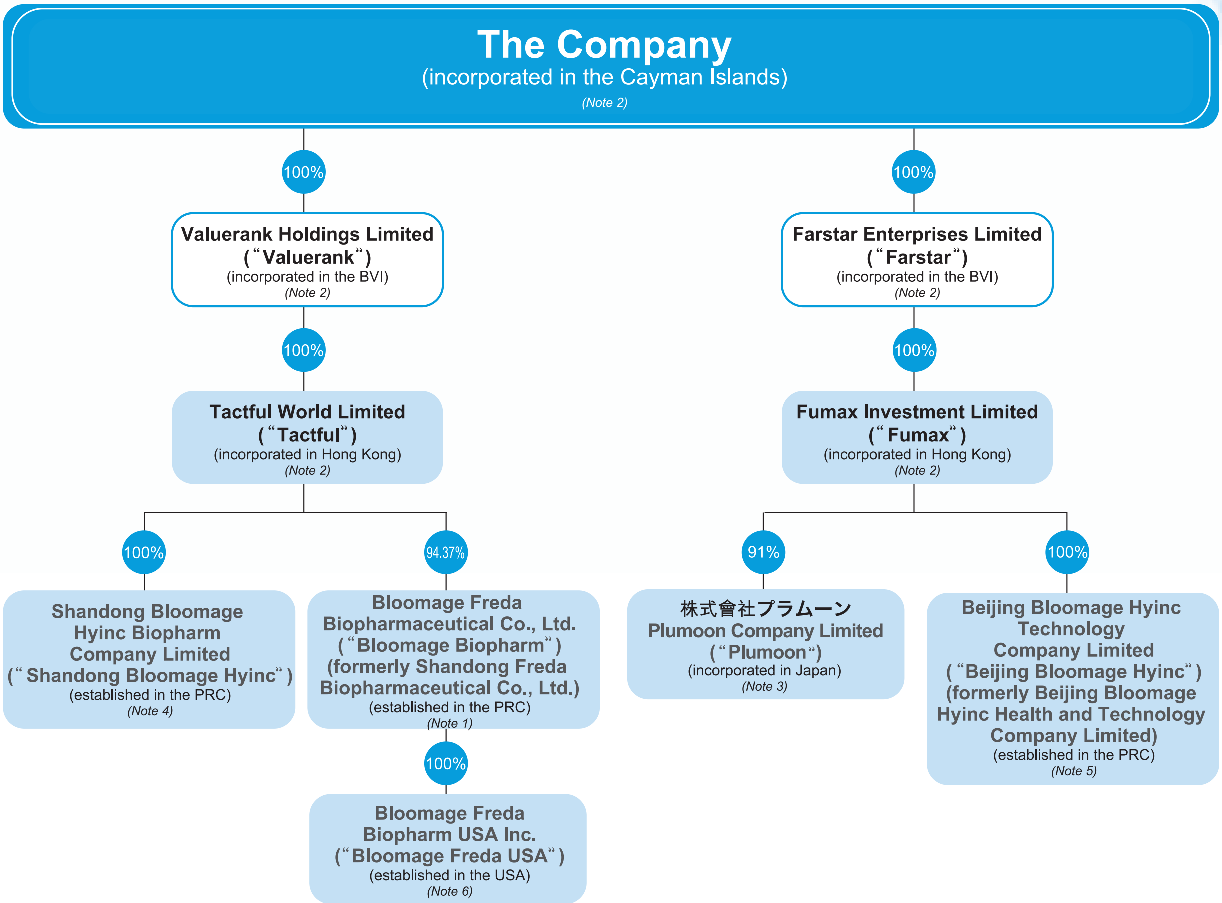
Group Overview

Bloomage BioTechnology Corporation Limited (the "Company", and together with its subsidiaries, the "Group") is an investment holding company. Its principal operating subsidiary is a manufacturer of hyaluronic acid ("HA") in the PRC principally engaging in the 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. Given that HA exhibits hydrating, lubricating, viscoelastic, pseudoplastic, biodegradable and biocompatible properties, it is widely used as raw materials/excipients in pharmaceutical, cosmetic and healthcare products. HA end products with HA as the main component include HA injection for orthopedic use, eye drops, ophthalmic surgery viscoelastic agent, injection cosmetic filler products, surgical anti-adhesion products, skin care products 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 major grades, namely injection grade, eye drop grade, cosmetic grade, food grade and HA oligosaccharide. For end products, the Group has successfully developed and obtained relevant qualifications for Hyaluronan Soft Tissue Filling Gel (product name "BioHyalux") and Medical Sodium Hyaluronate Gel for ophthalmologic use (product name"晶視").

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 view of the existing HA raw materials business, the Group further develops different categories of HA raw materials and expands their applications such as the development of oil soluble HA and expansion in wound healing purpose. In view of the overall development with HA as the core, the Group continues the research and development and produces series of HA end products. The Group continues to explore new customers and performs in-depth studies on medical, cosmetics and healthcare markets in order to achieve the sustainable development of the Group.

Group Structure

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



Notes:

1. Bloomage Biopharm is the principal operating subsidiary of the Company.
2. The Company, Valuerank, Farstar, Tactful and Fumax are investment holding companies.
3. The principal activities of Plumoon are expected to be production and sales of HA end products.
4. The principal activities of Shandong Bloomage Hyinc are expected to be the production and development of bio-chemical products.
5. The principal activities of Beijing Bloomage Hyinc are sales of bio-chemical products and medical instruments.
6. Bloomage Freda USA was established on 17 September 2012. The principal activities of Bloomage Freda USA are sales of bio-chemical products.

Chairman's Statement

To all Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the annual report of the Company (together with its subsidiaries, the "Group") for the year ended 31 December 2012. The Group achieved a satisfactory result in 2012. The annual turnover amounted to RMB274,966,000, representing an increase of approximately 33.4% as compared to 2011 and the profits attributable to shareholders was approximately RMB89,272,000 with a growth of approximately 22.9% as compared to 2011.

FINAL DIVIDEND AND CLOSURE OF REGISTER

The Board has recommended the payment of a final dividend of HKD2 cents per share of the Company (the "Share") for the year ended 31 December 2012 (2011: HKD1.1 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 16 May 2013 or any adjourned meeting, the above dividend is expected to be paid on or around 13 June 2013.

The transfer books and register of members of the Company will be closed from 13 May 2013 to 16 May 2013 (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 10 May 2013. In addition, the transfer books and register of members of the Company will be closed from 23 May 2013 to 27 May 2013 (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 22 May 2013. During such periods, no share transfers will be effected.

BUSINESS REVIEW

The Group continued to achieve good progress in the year of 2012. Annual turnover amounted to RMB274,966,000, representing an increase of approximately 33.4% as compared to 2011 and the profits attributable to shareholders was approximately RMB89,272,000 with a growth of approximately 22.9% as compared to 2011. The increase was primarily attributable to the Group's steady increase in the sales of HA raw materials and the launch of new HA end product – BioHaylux.

Although the global economic situation was still affected by the European financial crisis in 2012, there was rapid development in the domestic pharmaceutical industry. The Group actively adjusted the sales strategies with consideration of both domestic and overseas changing markets, while consolidating the market share in overseas market, the Group strengthened the domestic sales of HA raw materials, particularly the injection grade HA raw materials.

Chairman's Statement

The Group's injection cosmetic filler product BioHaylux has obtained the official sales approval under the People's Republic of China Registration Certificate for Medical Device issued by State Food and Drug Administration in July 2012, by then the Group successfully held product press conference in Beijing. The Group achieved sales for BioHaylux in mainland China with sample products exported to Europe, America and Southeast Asia markets. The launch of BioHaylux indicated that the Group has developed from the original single HA raw materials business to downstream cosmetic treatment industry with larger development potential.

The construction and equipment procurement of new biological industrial park located in Jinan City, Shandong Province, PRC have been started and it is expected that its production will commence by the end of 2013. The new production plant will further expand the production capacity and enhance production technique in order to strengthening the Group's competitive advantage and economies of scale as a whole.

As a result of the effective strategy implementation, the Group had achieved an increasing operating result in 2012 and sustained a continuous business growth.

OUTLOOK

Looking ahead, the global economic situation remains unstable, but in view of the rapid development cycle for domestic pharmaceutical and beauty markets, the Group will seize the opportunity and respond to the upcoming challenges in order to maintain the steady growth of HA raw materials business and expedite the sales of BioHyalux.

In 2013, the Group will continue to put the development of new technologies and new products as a top priority for enhancing the level of production techniques and expanding the product lines. With the advantage of fewer competition for domestic HA injection cosmetics filler products in the coming year, it is important for the Group to deploy development strategies in order to rapidly occupy the market share of BioHaylux and build the brand awareness for achieving better sales performance. The Group continues to recruit talented people within the industry and expand R&D and the market team. Besides, the Group will actively look for suitable investment opportunities which would reach synergistic effect on the existing business and expand the scale of operation in order to enhance the Group's competitiveness and sustainable 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.

Chairman's Statement

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
18 March 2013

Management's Discussion and Analysis

BUSINESS REVIEW

The Group is principally engaged in the production and sale of various Hyaluronic Acid ("HA") raw materials, and focuses on developing downstream HA end products. The Group has successfully developed new HA end products such as Hyaluronan Soft Tissue Filling Gel (product name "BioHaylux") and Medical Sodium Hyaluronate Gel for ophthalmologic use (product name「晶視」), of which BioHyalux has been launched in the market.

Global cosmetic treatment industry maintained a strong momentum of growth in recent years. According to "The Report of Market Analysis for PRC cosmetic industry and Product Analysis for HA injection filler products" issued by the PRC News International Information Center, in the year 2010, the total cost of cosmetic treatment was up to US$10.677 billion, of which the cost of injection cosmetic treatment was up to US$1.877 billion, representing more than 17% of the total cost. Such proportion was more than 20% in 2011 and it was expected to be steadily increased in 2012. In 2011, HA accounted for 68.9% under the non-surgical soft tissue filler products distribution in the United States of America. From the data of 2010 global cosmetic industry statistics released in 2011 by the International Association of Aesthetic Plastic Surgery, the PRC ranked the third for cosmetic treatment amongst the top 25 countries, and HA dermal filler ranked the second in use amongst non-surgical cosmetic treatment products. But in consideration of the national population, the PRC ranked the bottom two in terms of the number of people using HA dermal filler per every 10,000 people amongst the top 25 countries. In light of the above, there is good prospect of HA dermal filler products in the PRC market. Especially in recent years, under the favorable macroeconomic regulation and measures, the market for domestic demand gradually enlarged and the level of consumption for general public increased, therefore more customers call for safe and effective cosmetic treatment. With the demand from the market coupled with the lack of officially approved products in the market, the Group became the first corporation which has obtained the PRC Registration Certificate for Medical Device for Hyaluronan Soft Tissue Filling Gel, BioHyalux, to seize market opportunities.

In 2012, the domestic pharmaceutical industry maintained a high growth rate and the PRC government encouraged the acceleration of the restructuring of the pharmaceutical industry and the integration of resources, which promoted a standard for the development of pharmaceutical corporations. The development of international economy was still restrained by the European financial crisis, together with the increasing competition within the industry, there was a price threat within the HA raw materials market. The Group timely used the favourable development environment in domestic market by strengthening the promotion on the applications of HA related products in domestic medical industry and formulating active marketing strategies in order to expand its sales network. By virtue of the consistently excellent product quality and brand image, together with effective marketing strategies implemented, the Group continued to record steady business growth and operating results in 2012.

Management's Discussion and Analysis

The Group's annual turnover amounted to RMB274,966,000 in 2012, representing an increase of approximately 33.4% as compared to 2011. The Group's gross profits increased by approximately 26.3% from approximately RMB150,890,000 in 2011 to approximately RMB190,649,000 in 2012 and the profits attributable to equity shareholders of the Company increased by approximately 22.9% from approximately RMB72,628,000 in 2011 to approximately RMB89,272,000 in 2012. 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 HKD2 cents per share for the year ended 31 December 2012 (2011: HKD1.1 cents per share) to the Shareholders whose names appear on the register of members of the Company on 27 May 2013, amounting to approximately HKD6,240,000 in total.

HA raw materials business – Marketing reinforcement, expansion of brand influence and enhancing profitability

In 2012, the Group continued to increase the market awareness and promotion effect of HA raw materials by strengthening the level of promotion for both domestic and overseas market. The Group continued to enhance the relationship and cooperation with many domestic and overseas cosmetics branded customers so as to stimulate the sales volume through positive business demonstration effect.

For domestic sales strategy, the Group strengthened the region control through large region integration, and at the same time, set up a subsidiary in the United States of America and further expand the international market. Through the development of solid relationship with distributors and built-up of management and sales channel, the Group achieved progress in sales in domestic, North America and Asia Pacific markets. Besides, the Group promoted the product replacement for medical HA customers and enhanced the marketing for new products. The Group further developed both HA health and ordinary food customers in order to seek potential new source of profit growth. While maintaining continuous increase in the market share of cosmetic grade products and expanding the food grade HA international market, the Group focused on the sales of injection grade HA with higher value-added potential so as to strengthen the overall profit level.

HA end products business – Brand image establishment, intensive marketing and sales promotion

With the advantage of continuous technological innovation for HA products and stable HA raw materials quality, the Group successfully launched the end product BioHyalux in the market in July 2012. Through the in-depth analysis of market research and competing products before and after the product launch, BioHylaux established the brand positioning and brand image in the market. For the marketing strategy in 2012, apart from the large scale marketing activities held in Beijing, the Group participated in various kinds of domestic and international exhibitions and product launch conference in regions. In 2012, the Group arranged to hold numerous professional symposium in many regions such as Beijing and Shanghai. Such series of activities would expand the market awareness and enhance the professional brand image and reputation of the Group which would promote the sales of the products.

For the sales strategy, the Group focused on the characteristics of customers in each region for reasonable allocation of resources and design of sales distribution. Besides, the Group actively set up the sales team to provide professional and personalized service to end customers. At the same time, the Group is cautious in the selection of quality dealers which are essential for the Group to strive for larger market share. Up to the end of 2012, the Group achieved sales in 22 provinces and 48 cities in the PRC.

As the global professional research and development ("R&D") and production base for HA, the Group focused on training for products. With the formation of a well-known expert team, the Group held seminars and meetings with counselors and injection doctors to introduce specific product knowledge and demonstrate the injection techniques. This helped injection doctors and medical institutions for a comprehensive understanding on the characteristics of our products and established a professional brand image in the industry.

R&D and qualifications – Technical improvement, development of new products and enhancement of overall qualification

In 2012, the Group adhered to the development strategy of "aiming our HA research and development techniques at world leading level, with the advantage of HA raw materials production, enriching the HA production line and developing end products so as to enhance the brand value and development". In view of the enhancement of the technical content and quality of HA products, the optimization of enzymatic product process of HA significantly reduced the production cycle and enhanced the product purity in comparison to the chemical degradation method. In view of the new products development, the Group devoted its effort to develop future new markets and new profit sources, not only by studies on HA raw materials and related materials, but also the integrated system of end products. BioHaylux and 「晶視」 obtained the PRC Medical Device Registration Certificate in July 2012 and September 2012 respectively. Products research projects on beauty filler products in relation to different injection parts and levels were in smooth progress.

The Group devoted to continue the process of products registration and qualifications and achieved satisfactory results. Eye drop grade HA raw materials obtained the PRC Good Manufacturing Practice ("GMP") certificate and passed the on-site inspection of the United States Food and Drug Administration ("FDA"). Two more specifications of medical HA raw materials of the Group had obtained the United States DMF registration number.

Management's Discussion and Analysis

Formation of a new company, expediting the construction of the new factory and enhancement of the capacity of development

To cope with the need for the Group's rapid development and enhancement of the development capacity, the Group had set up Bloomage Freda Biopharm USA Inc., a wholly-owned subsidiary of the Group, on 17 September 2012 in order to expand the overseas sales.

The land located in Jinan City, Shandong Province, the PRC was purchased by the Group for the development of a biological industrial park. The construction and equipment procurement of a new production plant on the land have started and it is expected that its production will commence by the end of 2013. Details of the acquisition of land use rights and construction of production base are set out in the announcements of the Company dated 28 June 2012 and 27 September 2012 respectively. The new production plant will further expand the production capacity and enhance production technique in order to strengthen the Group's competitive advantage and economies of scale as a whole.

BUSINESS OUTLOOK

The Group aims at becoming a leading international HA raw materials manufacturer and a domestic high quality HA end products leader by making full use of the advantages in R&D capabilities, product quality and volume.

Promoting comprehensive market strategy and maintaining steady growth on HA raw materials

Following on the development of competitive environment in HA industry, the Group will strengthen its leading position in HA raw materials industry and differentiate with competitors through high-end, professional and unified market promotion. The Group will actively enhance the marketing planning and leading capabilities and strengthen the research on HA related products. This will help to search for possible opportunities of upstream and downstream business cooperation and expand feasible synergistic development strategy in order to increase the Group's competitiveness.

The Group will strive to maintain steady sales growth for HA raw materials and continue the advantageous position of cosmetic grade HA in both domestic and overseas markets. Through the strengthening of formula guidance on suppliers, development of various HA applications on cosmetics and food products, and in-depth promotion of exclusive technical products miniHA and HA oligosaccharide, the Group would enhance its market share. In terms of strategy, the Group continues to focus on developing branded customers with large consuming power, stable demand and large market influence. The Group will strengthen the research of different regions with proper supervision and guidance on dealers and strive to develop new customers. With the advantage of certification, the Group will vigorously promote medical HA raw materials. The Group will also continue to explore the development in potential emerging markets so as to seize the opportunity of new sales growth.

Management's Discussion and Analysis

Taking advantage of favourable environment to expedite the sales of BioHaylux

In 2013, the Group will further promote the domestic sales of BioHaylux. By taking the timely advantage of fewer competitors in the market, the Group aims to seize domestic market share by cultivating branded loyal customers to consolidate the customer base and expanding international market at the same time. Apart from the BioHyalux that has been launched in the market, through the established sales channels and platforms, the Group will extend its end products to cosmetics and health food industries when appropriate time comes.

Focus on R&D and extension of new products series

In 2013, the Group's research centre will form a comprehensively structural system with raw material products, end products and registration process by project management. In terms of technical improvement on existing products, the Group will continuously improve the quality of products, improve the production techniques and maintain the advantage of production techniques. For the development of new products, the Group will expedite the research and registration of beauty filler products and enrich filler products varieties. At the same time, it will speed up the registration of HA injection (for orthopedics use) and continue the development of other HA related products, extend product lines and enhance the new products technical reserve.

Comprehensive team building for rapid development of human resources reserve

For team building, the Group continues to focus on the recruitment of experienced marketing and sales personnel in order to develop a comprehensive sales system. In view of the changes and development of the market, the Group will adjust and improve the sales strategy and maintain the competitive advantage of the products. In 2013, the Group will recruit more R&D high-end professionals to expand the R&D team and further increase the R&D effort so as to maintain a higher level of production technique in the industry. The Group will continue to train up experienced personnel for providing quality human resources support for future business expansion.

Management's Discussion and Analysis

FINANCIAL REVIEW

Turnover

The Group's turnover for the year 2012 was RMB274.966 million, representing an increase of approximately 33.4% or approximately RMB68.902 million as compared to 2011. The increase in turnover was mainly attributable to the increase in sales of HA raw materials products including injection and cosmetic grade products and the increase in sales of the new HA end products BioHaylux.

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

	For the year ended 31 December			
	2012		2011	
	RMB'000	**%**	RMB'000	%
HA raw materials				
Injection	**42,097**	**15.3**	17,657	8.6
Eye drop	**38,759**	**14.1**	36,403	17.6
Cosmetic	**153,463**	**55.8**	122,735	59.6
Food	**25,493**	**9.3**	23,893	11.6
HA oligosaccharide	**5,435**	**2.0**	5,015	2.4
Others	**903**	**0.3**	361	0.2
HA end products	**8,816**	**3.2**	—	—
Total	**274,966**	**100.0**	206,064	100.0

Cost of sales

Cost of sales for the year ended 31 December 2012 was approximately RMB84.317 million, representing an increase of approximately 52.8% as compared to approximately RMB55.174 million for 2011. The increase was mainly attributable to the increase in sales volume.

Gross profit margin

The Group's gross profit margin for the year 2012 decreased to approximately 69.3% from approximately 73.2% in 2011. 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 approximately RMB8.650 million for the year 2012, representing an increase of 63.6% from approximately RMB5.288 million for the year 2011. The increase in other revenue was mainly attributable to the increase in investment income on available-for-sale financial assets and the government grants received as compared to 2011.

Distribution costs

The Group's distribution costs for the year 2012 were approximately RMB33.154 million, representing an increase of approximately 71.2% from approximately RMB19.367 million for the year 2011. The increase was mainly attributable to the increase in sales volume of HA raw materials and the new business of HA end products which are in line with the Group's strategy on promotion enhancement and business development.

Administrative expenses

The Group's administrative expenses for the year 2012 were approximately RMB44.099 million, representing an increase of approximately 51.9% from approximately RMB29.036 million for the year 2011. The increase in administrative expenses was mainly due to the increase in staff cost resulted from salary increment and the recruitment of additional staff and the increase in various administrative expenses relating to the business development of the Group, as well as the increase in R&D expenses relating to research of new products.

Other operating expenses

The Group's other operating expenses for the year 2012 were approximately RMB1.198 million, representing a decrease of approximately 35.9% from approximately RMB1.868 million for the year 2011.

Finance costs

The Group's finance costs for the year 2012 were approximately RMB9.067 million, representing a slight increase of approximately 1.1% from approximately RMB8.970 million for the year 2011. The Group's finance costs represented the dividends on the preferred shares.

Profit for the year

The Group's profit for 2012 was approximately RMB89.270 million, representing an increase of approximately 22.9% from approximately RMB72.625 million for the year 2011.

Management's Discussion and Analysis

Final dividend and closure of register

The Board proposed the payment of a final dividend of HKD2 cents (2011: HKD1.1 cents) per share to the Shareholders whose names appear on the register of members of the Company on 27 May 2013. Subject to the approval of the Shareholders at the annual general meeting (the "AGM"), it is expected that the final dividend will be paid on or around 13 June 2013.

The transfer books and register of members of the Company will be closed from 13 May 2013 to 16 May 2013 (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 4:30 p.m. on 10 May 2013. In addition, the transfer books and register of members of the Company will be closed from 23 May 2013 to 27 May 2013 (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 4:30 p.m. on 22 May 2013. During such periods, no share transfers will be effected.

Liquidity, capital structure and financial resources

As at 31 December 2012, the Group had current assets of approximately RMB259.290 million (2011: approximately RMB254.870 million) and current liabilities of approximately RMB48.669 million (2011: approximately RMB43.983 million). The current ratio of the Group as at 31 December 2012 was approximately 532.8% (2011: approximately 579.5%).

As at 31 December 2012, the Group had cash and cash equivalents of approximately RMB120.810 million (2011: approximately RMB188.810 million), of which approximately 69% (2011: approximately 82%) was denominated in RMB, approximately 13% (2011: approximately 15%) in HKD, approximately 15% (2011: approximately 2%) in United States Dollars ("USD") and approximately 3% (2011: approximately 1%) in Japanese Yen ("JPY"). Total liabilities of the Group amounted to approximately RMB97.286 million (2011: approximately RMB91.966 million) as at 31 December 2012.

As at 31 December 2012, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was approximately 20.5% (2011: approximately 24.1%). The decrease in gearing ratio as at 31 December 2012 as compared to that as at 31 December 2011 was principally attributable to the increase in total assets resulted from the Group's business operation.

Net cash generated from operating activities for 2012 was approximately RMB83.618 million (2011: approximately RMB82.856 million).

Net cash used in investing activities for 2012 was approximately RMB140.259 million (2011: approximately RMB14.281 million), mainly representing the acquistion of available-for-sale financial assets and the capital expenditure in the purchase of land use right and the construction of new factory in Jinan City, Shandong Province, the PRC.

Management's Discussion and Analysis

Net cash used in financing activities for 2012 was approximately RMB11.023 million (2011: approximately RMB12.230 million), mainly representing the payment of dividends on preferred shares of RMB8.480 million and the payment of dividends to equity shareholders of approximately RMB2.789 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 2012, the Group had no contingent liabilities.

Capital commitment

As at 31 December 2012, the capital commitment of Group was approximately RMB226.300 million (2011: approximately RMB10.217 million).

Employee information

As at 31 December 2012, the Group had 382 (2011: 290) employees, the majority of whom were stationed in the PRC. Total remuneration for 2012 amounted to approximately RMB36.906 million (2011: approximately RMB28.366 million). The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis.

Charge on assets

As at 31 December 2012, 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 2012, the Group purchased land use rights in the PRC at a total consideration of RMB46,800,000 (excluding taxes). Details of the acquisition of land use rights are set out in the announcement of the Company dated 28 June 2012. Besides, the Group purchased banking products which are classified as available-for-sale financial assets. Details are set out in Note 19 to the financial statements.

Except for the above, the Group did not have any significant investment, material acquisition and disposal of subsidiaries and associated companies during the period under review.

Biography of Directors and Senior Management

DIRECTORS

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

EXECUTIVE DIRECTORS

Ms. Zhao Yan, aged 46, is the Chairman and an executive Director. Ms. Zhao had been a director of Bloomage Biopharm since 2003. Except for Bloomage Freda USA, 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 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 sole director and shareholder of AIM First Investments Limited which hold 58.5% Shares in the Company.

Ms. Liu Aihua, aged 50, was appointed as an executive Director and Chief Executive Officer on 18 June 2012. She is the general manager of both Bloomage Biopharm and Shandong Bloomage Hyinc. 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 Biopharmaceuticals Research Institute during the period between August 1998 and December 2001. Ms. Liu has over 29 years' experience in both of pharmaceutical research and management. Ms. Liu is a director of Bloomage Biopharm, Beijing Bloomage Hyinc and Shandong Bloomage Hyinc. She joined the Group in January 2002.

Biography of Directors and Senior Management

Ms. Wang Aihua, aged 34, was appointed as an 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 since July 2007 up to September 2011. She is responsible for strategic development and capital management of the Group. Ms. Wang is a director of Bloomage Biopharm, Beijing Bloomage Hyinc and Shandong Bloomage Hyinc. She joined the Group in December 2008.

NON-EXECUTIVE DIRECTOR

Mr. Guo Jiajun (Song), aged 37, is an non-executive Director. He had been the Chief Executive Officer and an executive Director and was re-designated as a non-executive Director on 18 June 2012. He 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. Mr. Guo is responsible for supervising the performance of the Group and advising on its development plan. Mr. Guo is a director of Bloomage Biopharm. Mr. Guo joined the Group in March 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Zhan Lili, aged 40, 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.

Biography of Directors and Senior Management

Mr. Zhang Fuping, aged 55, 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 44, 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 Corporation since 2000, and is now the general manager of the strategic planning 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 had 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.

Mr. Jin Xuekun, aged 48, was appointed as an independent non-executive director on 18 June 2012. He was graduated from Fordham University with a Master's degree of Business Administration in 2002. He worked at China Rehabilitation Research Center from 1987 to 1993 and was responsible for medical imaging. He worked at Chindex (Beijing) International Trade Company Limited from 2001 to 2006 as vice president and was responsible for the marketing of medical imaging equipment in the PRC and since 2006, Mr. Jin was the general manager of Esaote (Shenzhen) Medical Equipment Co. Ltd.. Mr. Jin has over 20 years' experience in the sale and marketing of medical instruments.

Biography of Directors and Senior Management

SENIOR MANAGEMENT

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

Mr. Guo Xueping, aged 48, is the vice general manager and a director of Bloomage 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.

Mr. Wang Chunxi, aged 45, is the vice general manager of Bloomage 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 40, is the vice general manager of Bloomage Biopharm and a director of Bloomage Freda USA. 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 16 years' experience in pharmaceutical sales.

Biography of Directors and Senior Management

Mr. Yau Waiyan, aged 37, 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 48, is the company secretary of the Company (the "Company Secretary"). Mr. Loong is a practicing solicitor admitted in Hong Kong and is a founder and a partner of Messrs. Loong and Yeung in Hong Kong. Messrs. Loong and Yeung is the legal advisers of the Company as to Hong Kong laws. Mr. Loong gained more than 21 years working experience in corporate finance, merger and acquisition. Mr. Loong was an independent non-executive director of Minmetals Resources Limited from August 2009 to May 2012, whose shares are listed on the Main board of the Stock Exchange (stock code: 01208). He acted as the Company Secretary since May 2009.

Report of the Directors

The Directors herein present to the shareholders the audited financial statements of the Company for the year ended 31 December 2012.

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 2012 are set out in the consolidated statement of comprehensive income on page 51.

Subject to approval by the shareholders at the AGM, the Directors recommended the payment of a final dividend of HKD2 cents for the year ended 31 December 2012 to shareholders whose names appear on the register of members of the Company on 27 May 2013, amounting to approximately HKD6,240,000 in aggregate.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from 13 May 2013 to 16 May 2013 (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 4:30 p.m. on 10 May 2013. In addition, the transfer books and register of members of the Company will be closed from 23 May 2013 to 27 May 2013 (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 4:30 p.m. on 22 May 2013. During such periods, no share transfers will be effected.

GROUP FINANCIAL SUMMARY

The summary of the results of the Group for each of the five years ended 31 December 2012 and the assets and liabilities of the Group as at 31 December 2008, 2009, 2010, 2011 and 2012 are set out on page 122.

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 27(c) to the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 27(a) 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.

The emoluments of the five (2011: five) individuals with the highest emoluments are within the following bands:

	2012	2011
HKD Nil ~ HKD 1,000,000	**4**	5
HKD 1,000,000 ~ HKD 1,500,000	**1**	—

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)*
Ms. Liu Aihua *(appointed as Chief Executive Officer and executive Director on 18 June 2012)*
Ms. Wang Aihua

Non-executive Director:

Mr. Guo Jiajun *(re-designated as non-executive Director on 18 June 2012)*

Independent non-executive Directors:

Ms. Zhan Lili
Mr. Zhang Fuping
Mr. Qin Bin
Mr. Jin Xuekun *(appointed as independent non-executive Director on 18 June 2012)*

Each of Ms. Zhao Yan, Ms. Liu Aihua, Ms. Zhan Lili and Mr. Jin Xuekun 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, Mr. Qin Bin and Mr. Jin Xuekun, all are independent non-executive Directors and as at the date of this annual report still considers them to be independent.

Ms. Liu Aihua has entered into a service contract for a term of two years commencing on 18 June 2012. Each of Ms. Zhao Yan and Ms. Wang Aihua has entered into a service contract for a term of two years commencing on 3 October 2011 and 15 September 2011 respectively. 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 Mr Guo Jiajun and Mr. Jin Xuekun have entered into a service contract for a term of two years commencing on 18 June 2012. Each of Ms. Zhan Lili, Mr. Zhang Fuping and Mr. Qin Bin has entered into a service contract with the Company for a term of two years commencing on 3 October 2011. Each of the non-executive Directors (including 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 18 to 22.

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 HKD1.00. 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 date of listing of the Shares on the Stock Exchange. 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.

On 24 December 2012, 12,480,000 share options to subscribe for up to a total of 12,480,000 Shares of the Company were granted to certain grantees under the Scheme and each share option shall entitle the holder to subscribe for one Share at the exercise price of HKD4.422 per Share. 50% of the share options may be exercised within the period from 25 December 2013 to 24 December 2017 and the remaining 50% of the share options may be exercised within the period from 25 December 2014 to 24 December 2017. Details of the grant of share options are set out in the announcement of the Company dated 24 December 2012.

Apart from the share options granted on 24 December 2012 as mentioned above, the total number of securities available for issue under the Scheme as at the date of this annual report was 18,720,000 Shares which represented 6% 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.

The status of the share options granted up to 31 December 2012 is as follows:

	Number of unlisted share options								
Name and category of participant	As at 1 January 2012	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	As at 31 December 2012	Date of grant of share options	Vesting period of share options*	End of exercise period	Share price of the Company as at the date of grant of share options** *HKD per share*
Directors									
Liu Aihua	—	2,190,000	—	—	2,190,000	24 December 2012	50%: 24 December 2012 to 24 December 2013 50%: 24 December 2012 to24 December 2014	24 December 2017	4.3
Wang Aihua	—	680,000	—	—	680,000	24 December 2012	50%: 24 December 2012 to 24 December 2013 50%: 24 December 2012 to 24 December 2014	24 December 2017	4.3
Guo Jiajun	—	700,000	—	—	700,000	24 December 2012	50%: 24 December 2012 to 24 December 2013 50%: 24 December 2012 to 24 December 2014	24 December 2017	4.3
Jin Xuekun	—	310,000	—	—	310,000	24 December 2012	50%: 24 December 2012 to 24 December 2013 50%: 24 December 2012 to 24 December 2014	24 December 2017	4.3
Other employees	—	8,600,000	—	—	8,600,000	24 December 2012	50%: 24 December 2012 to 24 December 2013 50%: 24 December 2012 to 24 December 2014	24 December 2017	4.3
Total		12,480,000	—	—	12,480,000				

Notes to the table of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period. Such share options will only become vested upon expiry of the relevant vesting period.

** The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange of the trading day immediately prior to the date of the grant of the share options.

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

As at 31 December 2012, 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/ interested	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%
Ms. Liu Aihua	Interest of a controlled Corporation *(Note 3)*	4,914,000 (L)	1.58%
	Beneficial owner *(Note 3 and 4)*	2,190,000(L)	0.70%
Mr. Guo Jiajun	Beneficial owner *(Note 4)*	700,000	0.22%
Ms. Wang Aihua	Beneficial owner *(Note 4)*	680,000	0.22%
Mr. Jin Xuekun	Beneficial owner *(Note 4)*	310,000	0.1%

Notes:

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

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

(3) The 4,914,000 shares of the Company are held by Forever Shining Holdings Limited ("Forever Shining"), which is owned as to 42.86% by Ms. Liu Aihua. Therefore, Ms. Liu Aihua is deemed, or taken to be, interested in all the shares of the Company which are beneficially owned by Forever Shining for the purpose of the SFO. Ms Liu Aihua is taken to be interested as a grantee of options to subscribe 2,190,000 Shares under the Scheme of the Company.

(4) On 24 December 2012, 2,190,000, 700,000, 680,000 and 310,000 share options were granted to Ms. Liu Aihua, Mr. Guo Jiajun, Ms. Wang Aihua and Mr. Jin Xuekun respectively pursuant to the Scheme.

(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 2012, 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 2012, 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%

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.

On 8 October 2012, 20,000,000 warrants of the Company (each of which carries the right to subscribe for one share, and in aggregate represented approximately 6.41% of the existing issued capital of the Company) were issued to Perfect Good Investment Limited, details of which are set out in the paragraph headed "Issue of Unlisted Warrants Under General Mandate" below.

Save as disclosed above, as at 31 December 2012, 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.

DISCLOSABLE TRANSACTIONS

Acquisition of Land Use Rights in the PRC

The Group (through Shandong Bloomage Hynic, which is an indirectly wholly-owned subsidiary of the Company) had participated in a bid for the land use rights of a piece of land located at Budong Village, Juyehe Banshichu, Licheng District, Jinan City, Shandong Province, the PRC with a bid price of RMB46,800,000. The Group succeeded in the bid and completed the acquisition of the land use rights during 2012.

Construction of Production Base

On 27 September 2012, the Group (through Shandong Bloomage Hynic, which is an indirectly wholly-owned subsidiary of the Company) entered into a construction agreement (the "Construction Agreement") with Jinan Yijian Group Headquarter in respect of the construction of the first phase production base of the Group with a total construction area of approximately 49,300 square metres in the consideration of RMB91,470,000 pursuant to the Construction Agreement.

Listing Rules Implications

As one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the above transactions exceed 5% but less than 25%, the said transactions constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but is exempt from shareholders' approval requirement under the Listing Rules. Details of the above transactions are set out in the announcements of the Company dated 28 June 2012 and 27 September 2012 respectively in accordance with the Listing Rules.

APPOINTMENT, REDESIGNATION AND CHANGE OF MEMBERS OF COMMITTEES

The following changes took effect from 18 June 2012:-

(1) The re-designation of Mr. Guo Jiajun from an executive Director to a non-executive Director and resignation of Mr. Guo Jiajun as the Chief Executive Officer;

(2) The appointment of Ms. Liu Aihua as an executive Director and the Chief Executive Officer;

(3) The appointment of Mr. Jin Xuekun as an independent non-executive Director;

(4) The change of members of the audit committee from Mr. Qin Bin, Ms. Zhan Lili and Mr. Zhang Fuping to Mr. Qin Bin, Ms. Zhan Lili and Mr. Jin Xuekun;

(5) The change of members of nomination committee from Mr. Zhang Fuping, Ms. Zhao Yan and Ms. Zhan Lili to Mr. Zhang Fuping, Ms. Liu Aihua and Mr. Jin Xuekun; and

(6) The change of members of the remuneration committee from Ms. Zhan Lili, Mr. Guo Jiajun and Mr. Zhang Fuping to Mr. Jin Xuekun, Ms. Wang Aihua and Mr. Qin Bin.

ISSUE OF UNLISTED WARRANTS UNDER GENERAL MANDATE

On 19 September 2012, the Company entered into a warrant subscription agreement ("Warrant Subscription Agreement") with the subscriber, Perfect Good Investment Limited ("Perfect Good") pursuant to which the Company agreed to issue and Perfect Good agreed to subscribe for 20,000,000 unlisted warrants at the issue price of HKD0.02 per warrant. Each of the warrant carries the right to subscribe for one Share at the exercise price of HKD2.65 per Share (subject to adjustment) for a period of 12 months from the date of issue of the warrants. The warrant subscription was completed on 8 October 2012 and 20,000,000 warrants were issued to Perfect Good pursuant to the terms of the aforesaid Warrant Subscription Agreement. The net proceeds from the warrant subscription were approximately HKD300,000, which have been used as the general working capital of the Group. Details of the issue of unlisted warrants are set out in the announcements of the Company dated 19 September 2012 and 8 October 2012.

As at 31 December 2012, Perfect Good has not exercised any warrants to subscribe for any new Shares.

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, namely Ms. Zhan Lili, Mr. Zhang Fuping and Mr. Qin Bin, and after the appointment of Mr. Jin Xuekun as an independent non-executive Director on 18 June 2012, Mr. Jin Xuekun, 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 undertakings of Mr. Cheng and Mr. Ling ceased upon their resignations as a Director and a director of Bloomage Biopharm on 15 Sptember 2011 and 19 April 2012 respectively. Ms. Zhao confirmed that (a) she has provided all information necessary for the enforcement of her respective deed of non-competition as requested by the Committee from time to time; and (b) during the year ended 31 December 2012, she had complied with her non-competition undertaking. Mr. Ling 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 2012 to 19 April 2012. The Committee also confirmed that they were not aware of any non-compliance of the non-competition undertaking given by Ms. Zhao during the year ended 31 December 2012 and any non-compliance of the non-competition undertaking given by Mr. Ling from 1 January 2012 to 19 April 2012.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's sales to the largest and five largest customers accounted for approximately 15.6% and 36.8% respectively of the Group's turnover while the Group's purchase from the largest and five largest suppliers accounted for approximately 64.6% and 77.7% 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

On 28 May 2012, Beijing Bloomage Hyinc Technology Company Limited ("Beijing Bloomage Hyinc"), an indirectly wholly-owned subsidiary of the Company, entered into a property leasing agreement (the "Old Property Leasing Agreement") with Beijing Bloomage Central Property Management Co., Ltd ("Bloomage Property"), pursuant to which, Bloomage Property agreed to lease certain properties located in Beijing, the PRC to Beijing Bloomage Hyinc for a term of two years commencing from 1 January 2012 to 31 December 2013 at an annual rental of RMB1,398,139 for the year ended 31 December 2012. As Bloomage Property is ultimately owned as to approximately 98.02% by Ms. Zhao Yan, a controlling shareholder of the Company, the chairman of the Company and an executive Director and as such, is a connected person of the Company under the Listing Rules.

On 18 January 2013, Beijing Bloomage Hyinc and Bloomage Property entered into two termination agreements terminating the Old Leasing Agreement, pursuant to which, the parties agreed to terminate the lease of a property with effect from 30 April 2013 and another property with effect from 15 December 2012 respectively.

On the same date, Beijing Bloomage Hyinc and Bloomage Property entered into a new property leasing agreement ("New Property Leasing Agreement") with Bloomage Property, pursuant to which Beijing Bloomage Hyinc leases from Bloomage Property certain properties located in Beijing for a term of 3 years from 1 January 2013 to 31 December 2015 at an annual rental cap of RMB6,252,261.6 for the year ended 31 December 2013.

Details of the above transactions are set out in the announcements of the Company dated 28 May 2012 and 18 January 2013.

The above transactions contemplated under the aforesaid Old Property Leasing Agreement and the New Property Leasing Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules but are exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules.

The Company's auditors have also confirmed in writing to the Board, the above connected transactions:

(1) have received the approval of the Board;

(2) nothing had come to their attention which caused them to believe that:

- the connected transactions had not been entered into in accordance with the relevant agreements governing the transactions;
- the connected transactions had not been entered into in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group; and
- the transaction amount occurred in 2012 for each of the connected transactions was not within the respective cap amount as disclosed in the Company's announcements on 28 May 2012.

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 97.36% 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 20 July 2012, Shandong Zhengda Technology Co,, Ltd. disposed all of its interest in Freda Bioengineering to third parties and therefore Freda Bioengineering ceased to be a connected person of the Company since then.

On 25 December 2011, Bloomage Biopharm, a subsidiary of the Company and Freda Bioengineering entered into a lease agreement, pursuant to which Bloomage Biopharm agreed to lease certain properties located in Shandong, the PRC to Freda Bioengineering for a term of one year commencing from 25 December 2011 to 24 December 2012 at an annual rental of RMB418,016.

In addition, Freda Bioengineering has been purchasing products and raw materials from the Group in the past two years. The aggregate sales amount for the years ended 31 December 2011 and 31 December 2012 were approximately RMB34,000 and RMB112,000, respectively.

Beijing Zhaofeng Xingye Investment Advisory Co., Ltd. ("Beijing Zhaofeng") is a company owned as to 60% by Mr. Shi Lei, a director of a wholly-owned subsidiary of the Company. Hence, Beijing Zhaofeng is a connected person of the Company pursuant to the Listing Rules. Beijing Zhaofeng provided financial consultancy services to the Group for the year 2012 and the aggregate related service fees the Group paid to Beijing Zhaofeng amounted to approximately RMB360,000 for the year 2012.

Each of the transactions contemplated under the aforesaid lease agreement and sales transaction with Freda Bioengineering and the financial consultancy services provided by Beijing Zhaofeng constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules before Freda Bioengineering ceasing to be a connected person of the Company on 20 July 2012 (in the case of Freda Bioengineering) but as each of the transactions were on normal commercial terms and each of the applicable percentage ratios is on an annual basis less than 5% and the annual consideration is less than HKD1,000,000, they were exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

During the year 2012, Beijing Bloomage Central Property Management Co., Ltd. and Bloomage International Investment Group Inc., both being companies ultimately owned by Ms. Zhao Yan as to 98.02% and 97% respectively (and hence both are connected persons of the Company), provided advances to the Group in the amount of approximately RMB306,000 and RMB74,000, respectively. As both advances are financial assistance provided by a connected person for the benefit of the Group on normal commercial terms (or better to the Company) where no security over the assets of the Group is granted in respect of the financial assistance, these transactions are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The independent non-executive Directors have also confirmed to the Board, the above connected transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Save as disclosed above, the Directors consider that those material related party transactions disclosed in Note 30 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 2012, 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.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set out in Note 31 to the financial statements.

AUDITORS

The financial statements for the year ended 31 December 2012 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, 18 March 2013

Corporate Governance Report

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all shareholders.

From 1 January 2012 to 31 March 2012, the Company had complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Code has been amended which took effect from 1 April 2012 (the "Revised Code") and the Company had complied with all the code provisions as set out in the Revised Code during the period from 1 April 2012 to 31 December 2012. Details of the Company's corporate governance are summarized as below.

BOARD OF DIRECTORS

The Board currently comprises eight Directors including three executive Directors, one non-executive Director and four independent non-executive Directors:

Executive Directors:

Ms. Zhao Yan *(Chairman)*
Ms. Liu Aihua *(appointed as Chief Executive Officer and executive Director on 18 June 2012)*
Ms. Wang Aihua

Non-executive Director

Mr. Guo Jiajun *(re-designated as non-executive Director on 18 June 2012)*

Independent non-executive Directors

Ms. Zhan Lili
Mr. Zhang Fuping
Mr. Qin Bin
Mr. Jin Xuekun *(appointed as independent non-executive Director on 18 June 2012)*

Corporate Governance Report

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 with 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 or the Board Committee papers are distributed to the Directors or the Board Committee members (as the case may be) 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. Save as mentioned therein, there is no other relationship (including financial, business, family or other material/relevant relationship) among members of the Board and, in particular, between the chairman of the Board ("Chairman") and the chief executive officer of the Company ("Chief Executive Officer").

The Company has complied with Rules 3.10 (1) and 3.10A of the Listing Rules. During the year ended 31 December 2012, there were four independent non-executive Directors in the Board and the number of independent non-executive Directors represents at least one-third of the Board. The Company has also complied with Rule 3.10 (2) of the Listing Rules, which stipulates that one of the independent non-executive Directors must possess appropriate professional qualifications or accounting or related financial management expertise. The Board considers that the independent non-executive Directors are all independent persons with appropriate qualifications or expertise and the Company has complied with the relevant requirements of the Listing Rules.

The Board is responsible for performing the corporate governance functions set out in code provision D3.1 of the Revised Code. As at the date of this report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct and (e) the Company's compliance with the Revised Code disclosures requirements.

CHAIRMAN AND CHIEF EXECUTIVE

Ms. Zhao Yan serves as the Chairman and Ms. Liu Aihua serves as the Chief Executive Officer. They have separate defined responsibilities whereby the Chairman is primarily responsible for leadership and effective functioning of the Board, and the Chief Executive Officer is responsible for the day-to-day management of the Company's business and the effective implementation of corporate strategy and policies.

BOARD MEETINGS AND ATTENDANCE

Under code provision A.1.1 of the Revised Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. During the year ended 31 December 2012, 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)*	8/9
Ms. Liu Aihua *(appointed as Chief Executive Officer and executive Director on 18 June 2012)*	6/6 (Note)
Ms. Wang Aihua	9/9
Mr. Guo Jiajun	9/9
Ms. Zhan Lili	9/9
Mr. Zhang Fuping	9/9
Mr. Qin Bin	9/9
Mr. Jin Xuekun *(appointed as independent non-executive Director on 18 June 2012)*	6/6 (Note)

Note:

Each of Ms. Liu and Mr. Jin attended six out of six Board meetings held during his/her tenure in the year ended 31 December 2012.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT PROGRAMME

Each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, laws, rules and regulations. Directors' training is an ongoing process. During the year ended 31 December 2012, Directors are provided with monthly updates on the Company's performance, position and prospects to enable the board as a whole and each director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2012, the Company has also organized briefing sessions conducted by the Legal Advisers of the Company as to Hong Kong laws for the Directors.

The briefing sessions covered topics including the Corporate Governance Code, listed company regulations and disclosure obligations in Hong Kong, disclosable transactions and connected transactions etc.

According to the records provided by the Directors, a summary of training received by the Directors since 1 April 2012 up to 31 December 2012 is as follows:

	Attending seminar(s)/ conference(s) relevant to the business or directors' duties
Ms. Zhao Yan	√
Ms. Liu Aihua *(appointed on 18 June 2012)*	√
Ms. Wang Aihua	√
Mr. Guo Jiajun	√
Ms. Zhan Lili	√
Mr. Zhang Fuping	√
Mr. Qin Bin	√
Mr. Jin Xuekun *(appointed on 18 June 2012)*	√

All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

REMUNERATION PAID TO MEMBERS OF KEY MANAGEMENT

Details of remuneration paid to members of key management (including all Directors and senior management as disclosed in the paragraph headed "Senior Management" under the section headed "Biography of Directors and Senior Management" of this report) fell within the following bands:

	2012	2011
HKD Nil ~ HKD 1,000,000	**11**	13
HKD 1,000,001 ~ HKD 1,500,000	**1**	—

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. Liu Aihua has entered into a service contract with the Company for a term of two years commencing from 18 June 2012. Each of Ms. Zhao Yan and Ms. Wang Aihua has entered into a service contract for a term of two years commencing on 3 October 2011 and 15 September 2011 respectively. 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 Mr. Guo Jiajun and Mr. Jin Xuekun has entered into a service contract for a term of two years commencing on 18 June 2012. Each of Ms. Zhan Lili, Mr. Zhang Fuping and Mr. Qin Bin has entered into a service agreement with the Company for a term of two years commencing on 3 October 2011. Each of the non-executive Directors (including 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 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. Liu Aihua and Mr. Jin Xuekun and pursuant to Article 87, Ms. Zhao Yan and Ms. Zhan Lili 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 2012. 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. Jin Xuekun. 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 Revised Code and are available on the websites of the Company and the Stock Exchange.

During 2012, the Audit Committee has reviewed the Group's internal controls. The Group's final results for the year ended 31 December 2012 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 2012, and performed the major works as below:

1. reviewed the annual financial results and report for the year ended 31 December 2011 and interim financial results and report for the six months ended 30 June 2012;

2. reviewed the internal audit department's report regarding the reviewing and procedures of the internal control and risk management of the Company; and

3. provided opinions to the Board in respect of the terms of appointment of external auditors.

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. Jin Xuekun *(appointed on 18 June 2012)*	1/1 (Note 1)
Mr. Zhang Fuping *(resigned on 18 June 2012)*	1/1 (Note 2)

Notes:

(1) Mr. Jin attended one out of one Audit Committee meeting held during his tenure in the year ended 31 December 2012.

(2) Mr. Zhang attended one out of one Audit Committee meeting held during his tenure in the year ended 31 December 2012.

AUDITORS' REMUNERATION

During the year ended 31 December 2012, 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	**2012**	2011
	RMB'000	*RMB'000*
Non-audit services	**16**	16
Audit services	**1,000**	908
	1,016	924

NOMINATION COMMITTEE

The primary duties of the nomination committee of the Company (the "Nomination Committee") are to make recommendations to the Board on the appointment of Directors and management of the Board's succession and to ensure that the candidates to be nominated as Directors are experienced, high calibre individuals. The Nomination Committee consists of Ms. Liu Aihua, an executive Director and two independent non-executive Directors, namely Mr. Zhang Fuping and Mr. Jin Xuekun. 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 Revised 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 2012, and performed the major work as below:

1. examined the structure, size and composition of the Board, to ensure the Directors have the expertise, skills and experience required to meet the Company's business;
2. assessed the independency of all independent non-executive directors of the Company; and
3. reviewed and discussed the nomination of each of Ms. Liu Aihua and Mr. Jin Xuekun as a Director and re-designation of Mr. Guo Jiajun and made recommendations to the Board in this regard.

Details of the attendance of the Nomination Committee meeting are as follows:

	Attendance/ Meeting held
Mr. Zhang Fuping *(Chairman)*	2/2
Mr. Jin Xuekun *(appointed on 18 June 2012)*	0/0 (Note 1)
Ms. Liu Aihua *(appointed on 18 June 2012)*	0/0 (Note 1)
Ms. Zhan Lili *(resigned on 18 June 2012)*	2/2 (Note 2)
Ms. Zhao Yan *(resigned on 18 June 2012)*	2/2 (Note 2)

Notes:

(1) No Nomination Committee meeting held during the respective tenure of each of Mr. Jin and Ms. Liu in the year ended 31 December 2012.

(2) Each of Ms. Zhan and Ms. Zhao attended two out of two Nomination Committee meeting held during their respective tenure in the year ended 31 December 2012.

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. It will make recommendation to the Board on the remuneration packages of individual executive directors and senior management. The Remuneration Committee comprises Ms. Wang Aihua, an executive Director and two independent non-executive Directors, namely Mr. Jin Xuekun and Mr. Qin Bin. Mr. Jin Xuekun 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 Revised Code and are available on the websites of the Company and the Stock Exchange.

The Remuneration Committee held three meetings during the year ended 31 December 2012, and performed the major work as below:

1. reviewed and discussed the remuneration policy and structure of the Company and the remuneration and performance of duties of the executive Directors and senior management in the year under review;
2. made recommendation to the Board on the remuneration packages of individual executive directors and senior management.

Details of the attendance of the Remuneration Committee meeting are as follows:

	Attendance/ Meeting held
Mr. Jin Xuekun *(appointed as Chairman on 18 June 2012)*	1/1 (Note 1)
Mr. Qin Bin *(appointed on 18 June 2012)*	1/1 (Note 1)
Ms. Wang Aihua *(appointed on 18 June 2012)*	1/1 (Note 1)
Ms. Zhan Lili *(resigned on 18 June 2012)*	2/2 (Note 2)
Mr. Zhang Fuping *(resigned on 18 June 2012)*	2/2 (Note 2)
Mr. Guo Jiajun *(resigned on 18 June 2012)*	2/2 (Note 2)

Notes:

(1) Each of Mr. Jin, Mr. Qin and Ms. Wang attended one out of one Remuneration Committee meeting held during their respective tenure in the year ended 31 December 2012.

(2) Each of Ms. Zhan, Mr. Zhang and Mr. Guo attended two out of two Remuneration Committee meeting held during their respective tenure in the year ended 31 December 2012.

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 2012.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

COMPANY SECRETARY

Mr. Loong Ping Kwan has been the Company Secretary of the Company since May 2009. Mr. Loong is a practising solicitor admitted in Hong Kong and is a founder and a partner of Messrs. Loong and Yeung in Hong Kong. Loong & Yeung is the legal advisers of the Company as to Hong Kong laws.

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 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.

GENERAL MEETINGS WITH SHAREHOLDERS

The 2012 annual general meeting ("2012 AGM") was held on 18 May 2012. The attendance record of the Directors at the 2012 AGM were as follows:

Directors	**Attendance/ General Meetings held**
Ms. Zhao Yan *(Chairman)*	1/1
Ms. Liu Aihua *(appointed as Chief Executive Officer and Executive Director on 18 June 2012)*	0/0 (Note)
Ms. Wang Aihua	1/1
Mr. Guo Jiajun	1/1
Ms. Zhan Lili	1/1
Mr. Zhang Fuping	0/1
Mr. Qin Bin	1/1
Mr. Jin Xuekun *(appointed as Independent Non-executive Director on 18 June 2012)*	0/0 (Note)

Note: Ms. Liu Aihua and Mr. Jin Xuekun were appointed as an executive Director and an independent non-executive Director respectively on 18 June 2012.

The Company's external auditor also attended the 2012 AGM.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary at the Company's principal place of business in Hong Kong at Suites 2001-2005, 20/F, Jardine House, 1 Connaught Place, Central, Hong Kong.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to Article 58 of the Articles of Association, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist (s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist (s) as a result of the failure of the Board shall be reimbursed to the requisitionist (s) by the Company.

Pursuant to Article 88 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such notice (s) are given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice (s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its Shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.bloomagebio-tech.com.

During the year ended 31 December 2012, there had been no significant change in the Company's constitutional documents.

Independent Auditor's Report

KPMG

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 51 to 121, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

18 March 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Turnover	4	**274,966**	206,064
Cost of sales		**(84,317)**	(55,174)
Gross profit		**190,649**	150,890
Other revenue	5	**8,650**	5,288
Distribution costs		**(33,154)**	(19,367)
Administrative expenses		**(44,099)**	(29,036)
Other operating expenses		**(1,198)**	(1,868)
Profit from the operation		**120,848**	105,907
Finance costs	6 (a)	**(9,067)**	(8,970)
Profit before taxation		**111,781**	96,937
Income tax	7 (a)	**(22,511)**	(24,312)
Profit for the year		**89,270**	72,625
Other comprehensive income for the year (after tax adjustments):			
Exchange differences on translation of financial statements of foreign operations		**(169)**	(1,887)
Total comprehensive income for the year		**89,101**	70,738
Profit attributable to:			
Equity shareholders of the Company		**89,272**	72,628
Non-controlling interests		**(2)**	(3)
Profit for the year		**89,270**	72,625
Total comprehensive income attributable to:			
Equity shareholders of the Company		**89,111**	70,735
Non-controlling interests		**(10)**	3
Total comprehensive income for the year		**89,101**	70,738
Earnings per share (RMB)			
Basic	11 (a)	**0.286**	0.233
Diluted	11 (b)	**0.285**	N/A

The notes on pages 58 to 121 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 27(b).

Consolidated Balance Sheet

at 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment, net	12	**123,066**	108,383
Construction in progress	13	**27,950**	6,672
Intangible assets	14	**862**	686
Lease prepayments	15	**63,088**	11,585
Total non-current assets		**214,966**	127,326
Current assets			
Inventories	17	**32,722**	30,416
Trade and other receivables	18(a)	**60,503**	35,644
Available-for-sale financial assets	19	**45,000**	—
Restricted cash	20	**255**	—
Cash and cash equivalents	20	**120,810**	188,810
Total current assets		**259,290**	254,870
Current liabilities			
Trade and other payables	21	**35,801**	33,868
Current portion of preferred shares	22	**9,159**	8,480
Income tax payable	24(a)	**3,709**	1,635
Total current liabilities		**48,669**	43,983
Net current assets		**210,621**	210,887
Total assets less current liabilities		**425,587**	338,213
Non-current liabilities			
Deferred income	25	**2,355**	1,755
Deferred tax liabilities	24(b)	**673**	547
Preferred shares	22	**45,589**	45,681
Total non-current liabilities		**48,617**	47,983
NET ASSETS		**376,970**	290,230

The notes on pages 58 to 121 form part of these financial statements.

Consolidated Balance Sheet *(continued)*

at 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
CAPITAL AND RESERVES			
Share capital	27(c)	**2,801**	2,801
Reserves	27(d)	**374,091**	287,341
Total equity attributable to equity shareholders of the Company		**376,892**	290,142
Non-controlling interests		**78**	88
TOTAL EQUITY		**376,970**	290,230

Approved and authorised for issue by the board of directors on 18 March 2013.

Zhao Yan
Director

Liu Aihua
Director

The notes on pages 58 to 121 form part of these financial statements.

Balance Sheet

at 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Investments in subsidiaries	16	**33,549**	33,543
Other receivables	18(b)	**48,967**	49,746
Total non-current assets		**82,516**	83,289
Current assets			
Other receivables	18(a)	**279**	245
Cash and cash equivalents	20	**1,860**	776
Total current assets		**2,139**	1,021
Current liabilities			
Amount due to a subsidiary	21	**1,396**	1,396
Accrued expenses and other payables	21	**260**	23
Total current liabilities		**1,656**	1,419
Net current assets/(liabilities)		**483**	(398)
NET ASSETS		**82,999**	82,891
CAPITAL AND RESERVES			
Share capital	27(a)	**2,801**	2,801
Reserves	27(a)	**80,198**	80,090
TOTAL EQUITY		**82,999**	82,891

Approved and authorised for issue by the board of directors on 18 March 2013.

Zhao Yan
Director

Liu Aihua
Director

The notes on pages 58 to 121 form part of these financial statements.

Consolidated Statement of Changes In Equity

for the year ended 31 December 2012

		Attributable to equity shareholders of the Company									
	Note	Share capital *RMB'000*	Share premium *RMB'000* 27(d)(i)	Statutory reserve *RMB'000* 27(d)(ii)	Warrant reserve *RMB'000* 27(d)(iii)	Exchange reserve *RMB'000* 27(d)(iv)	Other reserve *RMB'000* 27(d)(v)	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	—	(667)	21,210	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 reserve		—	—	6,175	—	—	—	(6,175)	—	—	—
Dividends for the year ended 31 December 2010	27(b)	—	—	—	—	—	—	(4,462)	(4,462)	—	(4,462)
		—	—	6,175	—	—	—	(10,637)	(4,462)	85	(4,377)
Balance at 31 December 2011		2,801	50,187	24,341	—	(2,560)	21,210	194,163	290,142	88	290,230

The notes on pages 58 to 121 form part of these financial statements.

for the year ended 31 December 2012

	Note	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Warrant reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company									
			27(d)(i)	27(d)(ii)	27(d)(iii)	27(d)(iv)	27(d)(v)				
Balance at 1 January 2012		**2,801**	**50,187**	**24,341**	**—**	**(2,560)**	**21,210**	**194,163**	**290,142**	**88**	**290,230**
Changes in equity for 2012:											
Profit for the year		—	—	—	—	—	—	89,272	89,272	(2)	89,270
Other comprehensive income		—	—	—	—	(161)	—	—	(161)	(8)	(169)
Total comprehensive income for the year		—	—	—	—	(161)	—	89,272	89,111	(10)	89,101
Equity settled share-based transactions		—	—	—	—	—	182	—	182	—	182
Appropriation to statutory reserve		—	—	9,109	—	—	—	(9,109)	—	—	—
Issue of warrants		—	—	—	327	—	—	—	327	—	327
Transaction costs for issue of warrants		—	—	—	(81)	—	—	—	(81)	—	(81)
Dividends for the year ended 31 December 2011	27(b)	—	—	—	—	—	—	(2,789)	(2,789)	—	(2,789)
		—	—	9,109	246	—	182	(11,898)	(2,361)	—	(2,361)
Balance at 31 December 2012		**2,801**	**50,187**	**33,450**	**246**	**(2,721)**	**21,392**	**271,537**	**376,892**	**78**	**376,970**

The notes on pages 58 to 121 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
Cash generated from operations	20(b)	**103,481**	108,611
PRC income tax paid		**(20,311)**	(26,905)
Interest received on cash at bank		**448**	1,150
Net cash generated from operating activities		**83,618**	82,856
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress and intangible assets		**(46,528)**	(14,381)
Proceeds from disposal of property, plant and equipment		**54**	100
Payments for purchase of land use right		**(51,946)**	—
Net acquisition of available-for-sale financial assets		**(45,000)**	—
Investment income received from available-for-sale financial assets		**3,161**	—
Net cash used in investing activities		**(140,259)**	(14,281)
Financing activities			
Contribution from non-controlling interests		**—**	85
Proceeds upon issue of warrants, net of transaction costs		**246**	—
Dividends paid on preferred shares		**(8,480)**	(7,853)
Dividends paid to equity shareholders of the Company		**(2,789)**	(4,462)
Net cash used in financing activities		**(11,023)**	(12,230)
Net (decrease)/increase in cash and cash equivalent		**(67,664)**	56,345
Cash and cash equivalents at 1 January		**188,810**	134,388
Effect of foreign exchange rate changes		**(336)**	(1,923)
Cash and cash equivalents at 31 December	20(a)	**120,810**	188,810

The notes on pages 58 to 121 form part of these financial statements.

Notes to the Financial Statements

1 CORPORATE INFORMATION

Bloomage BioTechnology Corporation Limited (the "Company") was incorporated in the Cayman Islands on 3 April 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 October 2008. Its principal subsidiary, Bloomage Freda Biopharmaceutical Co., Ltd. (formerly "Shandong Freda Biopharmaceutical Co., Ltd.") ("Bloomage 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 2012 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 (the "Listing Rules"). 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 2012 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– available-for-sale financial assets (see Note 2(e)).

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 Bloomage 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 several amendments to IFRSs 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:

- Amendments to IFRS 7, *Financial instruments: Disclosures-Transfers of financial assets*

The amendments to IFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial asset that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosure for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

(d) Subsidiaries and non-controlling interests

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries and non-controlling interests *(continued)*

Non-controlling interests are presented in the consolidated balance sheet 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(i)).

(e) Available-for-sale financial assets

The investments in securities, other than investments in subsidiaries, which do not fall into any other categories, are classified as available-for-sale financial assets. These investments are initially stated at fair value, which is their transaction price. Cost includes attributable transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Investment income from these investments is recognised in profit or loss in accordance with the policy set out in Note 2(t)(v). When these investments are derecognised or impaired (see Note 2(i)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) 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(i)).

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(i)). 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 (see Note 2(v)). 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.

(g) 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(i)).

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(i) Impairment of assets

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

Investments in securities and trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets 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.

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(i)(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(i)(ii).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

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

— 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 these 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.

— For available-for-sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale financial assets are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

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)*

(i) 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)*

(i) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

Under the Listing Rules, 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(i)(i) and (ii)).

(j) 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.

(k) 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(i)), 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.

(l) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Preference share capital

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

Preference share capital is classified as a 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(l) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

(n) Trade and other payables

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

(o) Warrants

The issue of warrants will be settled by the exchange of fixed amount of cash for a fixed number of the Company's own equity instruments.

The fair value of warrants on the date of issue is recognised in warrant reserve. The warrant reserve will be transferred to share capital and share premium upon exercise of the warrants, where the warrants remain unexercised at the expiry date, the amount previously recognised in warrant reserve will be released to the retained earnings.

(p) 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)*

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in other reserve within equity. The fair value is measured at grant date using Dividend Adjusted Black-Scholes Options Pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review with a corresponding adjustment to other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in other reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

(iii) Termination benefits

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Income tax *(continued)*

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.

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.

(s) 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)*

(t) 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 as revenue in profit or loss on a systematic basis 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

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

(v) Investment income on available-for-sale financial assets

Investment income on available-for-sale financial assets is recognised when the holder's right to receive payment is established.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) 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.

(v) 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.

(w) 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)*

(w) 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.

(x) 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 JUDGEMENTS AND ESTIMATES

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. Note 23 contains information about the assumptions and their risk factors relating to fair value of share options granted to the directors and employees. In addition, 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 JUDGEMENTS AND ESTIMATES *(continued)*

(c) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into 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 Bloomage Biopharm and other PRC established subsidiaries which are to be distributed to its overseas holding company in the foreseeable future. Note 24(b) contains information on the unrecognised deferred tax liabilities relating to the undistributed profits of Bloomage Biopharm as the Company controls the dividend policy of Bloomage 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 Bloomage 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.

	2012	2011
	RMB'000	*RMB'000*
Hyaluronic acid ("HA") raw materials	**265,247**	205,703
HA end products	**8,816**	—
Heparin products	**—**	17
Others	**903**	344
	274,966	206,064

The Group's customer base is diversified and includes only two (2011: one) customers with whom transactions have exceeded 10% of the Group's revenues. In 2012, revenues from sales of HA products to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB 72,026,000 (2011: approximately RMB 28,571,000) 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 28(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 2012, 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 2012 and the reconciliation of reportable segment revenues and profit or loss are set out below.

	Year ended 31 December 2012				
	Domestic	**Overseas**			**Total**
		Asia	**Americas**	**Others**	
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Turnover	**186,884**	**41,604**	**33,930**	**12,548**	**274,966**
Segment results	**137,231**	**24,691**	**18,274**	**6,099**	**186,295**
Unallocated income and expenses					**(65,447)**
Profit from operations					**120,848**
Finance costs					**(9,067)**
Income tax					**(22,511)**
Profit for the year					**89,270**

	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

5 OTHER REVENUE

	Note	2012 RMB'000	2011 RMB'000
Government grants	(a)	**2,025**	1,235
Interest income on cash at bank		**448**	1,150
Investment income on available-for-sale financial assets		**3,161**	—
Rental income		**2,867**	2,357
Others		**149**	546
		8,650	5,288

(a) Government grants

The grants represented an award of RMB 1,766,000 received in the year ended 31 December 2012 in relation to the technical achievement on the research and development of HA products accomplished by Bloomage Biopharm and an incentive of RMB 259,000 received by Bloomage Biopharm in relation to its expansion of business to overseas markets (2011: an award of RMB 735,000 received in relation to the technical achievement on the research and development of HA products accomplished by Bloomage Biopharm and an incentive of RMB 500,000 received by Bloomage Biopharm in relation to its environment protection achievement on sewage treatment).

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

	2012	2011
	RMB'000	*RMB'000*
Dividends on preferred shares (Note 22)	**9,067**	8,970

(b) Staff costs

	2012	2011
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**34,004**	26,471
Contributions to defined contribution retirement plan	**2,720**	1,895
Equity settled share-based transaction expenses (Note 23)	**182**	—
	36,906	28,366

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 19%~20% (2011: 21%) 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	2012 RMB'000	2011 RMB'000
Amortisation			
– intangible assets		**95**	88
– lease prepayments		**443**	270
Auditors' remuneration		**1,016**	924
Depreciation		**10,289**	9,652
Net foreign exchange loss		**493**	1,094
Net (gain)/loss on disposal of property, plant and equipment		**(7)**	127
Rental income		**(2,867)**	(2,357)
Operating lease charges in respect of leased plant and equipment		**1,398**	250
Research and development costs	(i)	**9,713**	8,803

(i) Research and development costs for the year ended 31 December 2012 included approximately RMB 6,510,000 (2011: approximately RMB 6,158,000) 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:

	2012 RMB'000	2011 RMB'000
Current tax – PRC income tax		
Provision for the year (Note 24(a))	**22,367**	26,165
Under-provision in respect of prior year (Note 24(a))	**18**	—
Deferred tax		
Origination and reversal of temporary differences (Note 24(b))	**126**	(1,853)
	22,511	24,312

7 INCOME TAX *(continued)*

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

	Note	2012 RMB'000	2011 RMB'000
Profit before taxation		**111,781**	96,937
Expected tax on profit before tax, calculated at the rates, applicable to profits in the tax jurisdictions concerned	(i) and (v)	**28,937**	24,774
Tax effect of tax concession	(ii)	**(12,229)**	(9,938)
Tax effect of non-deductible expenses	(iii)	**2,391**	1,897
Tax effect of unused tax losses not recognised (Note 24(c))		**1,368**	72
Effect of withholding tax on the distributable profit of Bloomage Biopharm (Note 24(b))	(iv)	**2,026**	7,507
Under-provision in respect of prior year		**18**	—
Income tax		**22,511**	24,312

(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 (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 31 October 2011, Bloomage Biopharm has satisfied certain conditions in the income tax law and was granted the qualification of advanced and new technology enterprise. Bloomage Biopharm was therefore entitled to a concession on PRC income tax of 10% for the three years from 1 January 2011 to 31 December 2013. As a result, the applicable PRC income tax rate of Bloomage Biopharm for 2012 is 15% (2011:15%).

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

(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 Bloomage Biopharm, is subject to a tax rate of 5% for the dividends received from Bloomage Biopharm after 8 December 2011. For the dividends received by Tactful during 1 January 2011 and 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:

	2012					
	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Subtotal	Equity settled share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Note 23)	*RMB'000*
Chairman						
Zhao Yan	122	—	—	122	—	122
Executive directors						
Liu Aihua (appointed on 18 June 2012)	87	824	20	931	32	963
Wang Aihua	162	134	—	296	10	306
Guo Jiajun (resigned as executive director on 18 June 2012)	81	—	—	81	—	81
Non-Executive directors						
Guo Jiajun (appointed as non-executive director on 18 June 2012)	38	—	—	38	10	48
Independent non-executive directors						
Jin Xuekun (appointed on 18 June 2012)	175	—	—	175	5	180
Qin Bin	65	—	—	65	—	65
Zhan Lili	65	—	—	65	—	65
Zhang Fuping	65	—	—	65	—	65
	860	958	20	1,838	57	1,895

8 DIRECTORS' REMUNERATION *(continued)*

	2011					
	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Subtotal	Equity settled share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Note 23)	*RMB'000*
Chairman						
Zhao Yan	128	—	—	128	—	128
Executive directors						
Guo Jiajun	170	—	—	170	—	170
Wang Aihua (appointed on 15 September 2011)	48	—	—	48	—	48
Non-executive director						
Cheng Bo (resigned on 15 September 2011)	60	—	—	60	—	60
Independent non-executive directors						
Qin Bin	68	—	—	68	—	68
Zhan Lili	68	—	—	68	—	68
Zhang Fuping	16	—	—	16	—	16
	558	—	—	558	—	558

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in Note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year, one of them (2011: none) is a director of the Company whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other four (2011: five) individuals of the Group are as follows:

	2012	2011
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	**1,266**	1,772
Bonus	**980**	1,060
Contributions to retirement benefit schemes	**92**	126
Equity settled share-based transaction expenses	**53**	—
	2,391	2,958

The emoluments of the four (2011: five) individuals with the highest emoluments are within the following band:

	2012	2011
HKD Nil ~ HKD 1,000,000	**4**	5

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB 2,415,000 (2011: RMB 2,177,000) 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:

	2012	2011
	RMB'000	*RMB'000*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(2,415)**	(2,177)
Final dividends from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**4,865**	6,001
Company's profit for the year (Note 27(a))	**2,450**	3,824

Details of dividends paid and payable to equity shareholders of the Company are set out in Note 27(b).

11 EARNINGS PER SHARE

(a) Basic 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 2012 of RMB 89,272,000 (2011: RMB 72,628,000) and the ordinary shares in issue during the year ended 31 December 2012 of 312,000,000 shares (2011: 312,000,000 ordinary shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB 89,272,000 (2011: RMB 72,628,000) and the weighted average number of ordinary shares of 313,839,000 shares (2011: 312,000,000 ordinary shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2012
	'000
Number of ordinary shares at 31 December	**312,000**
Effect of exercise of unlisted warrants	**1,839**
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (i)	**—**
Weighted average number of ordinary shares (diluted) at 31 December	**313,839**

(i) During the year ended 31 December 2012, the Company's outstanding share options were not included in the calculation of diluted earnings per share because the effects of the Company's outstanding share options were anti-dilutive.

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 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
At 1 January 2012	**68,554**	**72,148**	**2,815**	**3,666**	**147,183**
Additions	**—**	**478**	**933**	**1,050**	**2,461**
Transferred from construction in progress (Note 13)	**6,700**	**15,835**	**—**	**23**	**22,558**
Disposals	**(18)**	**(13)**	**(265)**	**(7)**	**(303)**
At 31 December 2012	**75,236**	**88,448**	**3,483**	**4,732**	**171,899**
Accumulated depreciation:					
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
At 1 January 2012	**14,338**	**21,120**	**1,132**	**2,210**	**38,800**
Charge for the year	**3,194**	**6,158**	**462**	**475**	**10,289**
Written back on disposal	**—**	**(11)**	**(238)**	**(7)**	**(256)**
At 31 December 2012	**17,532**	**27,267**	**1,356**	**2,678**	**48,833**
Net book value:					
At 31 December 2011	54,216	51,028	1,683	1,456	108,383
At 31 December 2012	**57,704**	**61,181**	**2,127**	**2,054**	**123,066**

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

All the Group's property, plant and equipment are mainly located in the PRC. As at 31 December 2012, property certificates of certain properties of the Group with an aggregate net book value of RMB 385,000 (31 December 2011: RMB 419,000) 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 30(a)) under operating leases. The leases run for a period of one to 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:

	2012	2011
	RMB'000	*RMB'000*
Within 1 year	**—**	1,939

13 CONSTRUCTION IN PROGRESS

	The Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**6,672**	—
Additions	**43,836**	9,411
Transferred to property, plant and equipment (Note 12)	**(22,558)**	(2,739)
At 31 December	**27,950**	6,672

14 INTANGIBLE ASSETS

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Cost:		
At 1 January	**1,114**	1,114
Additions	**271**	—
At 31 December	**1,385**	1,114
Accumulated amortisation:		
At 1 January	**(428)**	(340)
Charge for the year	**(95)**	(88)
At 31 December	**(523)**	(428)
Net book value:		
At 31 December	**862**	686

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

Notes to the Financial Statements

15 LEASE PREPAYMENTS

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Cost:		
At 1 January	**13,497**	13,497
Additions	**51,946**	—
At 31 December	**65,443**	13,497
Accumulated amortisation:		
At 1 January	**(1,912)**	(1,642)
Charge for the year	**(443)**	(270)
At 31 December	**(2,355)**	(1,912)
Net book value:		
At 31 December	**63,088**	11,585

Lease prepayments represent cost of land use rights in the PRC and are amortised on a straight-line basis over the lease period of 50 years.

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2012	2011
	RMB'000	*RMB'000*
Unlisted shares, at cost	**33,549**	33,543

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Details of the subsidiaries at 31 December 2012 are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Effective percentage of equity attributable to the Company Direct	Indirect	Principal activities
Valuerank Holdings Limited ("Valuerank")	British Virgin Islands ("BVI") 7 January 2005	United States Dollars ("USD") 1/ USD 50,000	100%	—	Investment holding
Farstar Enterprises Limited ("Farstar")	BVI 18 March 2005	USD 100/ USD 50,000	100%	—	Investment holding
Tactful	Hong Kong 18 September 2008	HKD 1/ HKD 10,000	—	100%	Investment holding
Fumax Investment Limited	Hong Kong 8 September 2008	HKD 1/ HKD 10,000	—	100%	Investment holding
Bloomage 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%	Production and sales of bio-chemical products
Beijing Bloomage Hyinc Technology Company Limited (formerly "Beijing Bloomage Hyinc Health and Technology Co., Ltd")*	PRC 15 December 2011	RMB 10,002,014/ RMB 20,000,000	—	100%	Sales of bio-chemical products and medical instrument
Shandong Bloomage Hyinc Biopharm Company Limited*	PRC 14 December 2011	RMB 164,100,000/ RMB 200,000,000	—	100%	Production and development of bio-chemical products
Bloomage Freda Biopharm USA Inc.	United States 17 September 2012	USD 2,000/ USD 2,000	—	100%	Sales of bio-chemical products

* Wholly foreign owned enterprises established under the PRC law.

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

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

17 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Raw materials and consumables	**5,077**	2,849
Work in progress	**3,621**	4,796
Finished goods	**24,024**	22,771
	32,722	30,416

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

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**84,317**	55,174

18 TRADE AND OTHER RECEIVABLES

(a) Current trade and other receivables

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from:				
– Third parties	**33,178**	20,793	**—**	—
– Related parties	**51**	—	**—**	—
Bills receivable	**18,209**	10,830	**—**	—
Prepayments and other receivables from:				
– Third parties	**6,109**	3,388	**279**	245
– Related parties	**2,956**	633	**—**	—
	60,503	35,644	**279**	245

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

(i) Ageing analysis

As of the balance sheet date, the ageing analysis of trade and bills receivables, based on the invoice date, is as follow:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**35,829**	21,120
3 to 6 months	**14,679**	10,262
6 to 9 months	**659**	139
Over 9 months	**271**	102
	51,438	31,623

18 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Current trade and other receivables *(continued)*

(ii) Trade and bills receivables that are not impaired

The analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired, based on the current and overdue status, are as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Current	**46,720**	16,170
1 to 3 months overdue	**3,788**	10,312
3 to 6 months overdue	**659**	5,039
6 months to 1 year overdue	**271**	102
	51,438	31,623

The credit term for trade receivables is generally 30 to 90 days. Bills receivable are generally due within 180 days from the date of billing. Further details on the Group's credit policy are set out in Note 28(a).

At 31 December 2012, the Group has no impairment losses on trade and other receivables (31 December 2011: 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 AVAILABLE-FOR-SALE FINANCIAL ASSETS

At 31 December 2012, the amounts represent two banking products purchased by the Group, one of which is principal guaranteed with an amount of RMB 10,000,000 with a term from 19 December 2012 to 23 January 2013, and the other one is non-principal guaranteed with an amount of RMB 35,000,000 which is redeemable on demand. These banking products mainly invested in bonds traded in the PRC.

20 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**121,065**	188,810	**1,860**	776
Less: restricted cash (i)	**(255)**	—	**—**	—
Cash and cash equivalents	**120,810**	188,810	**1,860**	776

(i) At 31 December 2012, restricted cash represent deposits with banks for issuance of letter of credit by the Group.

All the Group's cash and cash equivalents were placed with banks in the PRC, Hong Kong, Japan and United States. 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.

20 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH *(continued)*

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

	2012	2011
	RMB'000	*RMB'000*
Profit before taxation	**111,781**	96,937
Adjustments for:		
Amortisation of intangible assets	**95**	88
Amortisation of lease prepayments	**443**	270
Depreciation	**10,289**	9,652
Dividends on preferred shares	**9,067**	8,970
Equity settled share-based payment expenses	**182**	—
Interest income on cash at bank	**(448)**	(1,150)
Investment income on available-for-sale financial assets	**(3,161)**	—
Net (gain)/loss on disposal of property, plant and equipment	**(7)**	127
Changes in working capital:		
Increase in inventories	**(2,306)**	(10,562)
Increase in trade and other receivables	**(23,927)**	(13,499)
Increase in trade and other payables	**1,473**	17,778
Cash generated from operations	**103,481**	108,611

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**12,515**	15,396	**—**	—
Payables for construction of plant and purchase of equipment	**6,298**	5,238	**—**	—
Receipts in advance	**2,309**	1,973	**—**	—
Value added tax payable	**223**	142	**—**	—
Other payables due to related parties	**596**	295	**—**	—
Amounts due to a subsidiary	**—**	—	**1,396**	1,396
Accrued expenses and other payables	**13,860**	10,824	**260**	23
	35,801	33,868	**1,656**	1,419

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	
	2012	2011
	RMB'000	*RMB'000*
Due within 1 month or on demand	**12,515**	15,396

22 PREFERRED SHARES

	The Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**54,161**	53,044
Dividends during the year	**9,067**	8,970
Payment of dividends of preferred shares	**(8,480)**	(7,853)
	54,748	54,161
Less: current portion of preferred shares	**(9,159)**	(8,480)
	45,589	45,681

22 PREFERRED SHARES *(continued)*

In connection with the Transformation, Valuerank and Farstar acquired the rights to the 25% equity interest in Bloomage Biopharm from SFP, the then non-controlling interests holder of Bloomage 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 Bloomage 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 Bloomage 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 Bloomage 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 Bloomage 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 Bloomage Biopharm as at 8 October 2004 derived from the present value of the future cash flows expected to be derived from Bloomage 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.

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 Bloomage 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 Bloomage 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.

22 PREFERRED SHARES *(continued)*

(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 Bloomage Biopharm is repayable as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Within 1 year	**9,159**	8,480
After 1 year but within 5 years	**28,434**	31,366
After 5 years	**17,155**	14,315
	54,748	54,161

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.

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 3 September 2008 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at consideration of HKD1.0 to subscribe for shares of the Company. For the options granted, 50% of the options vest after one year from the date of grant and are then exercisable within a period of four years and the remaining 50% of the options vest after two years from the date of grant and are then exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 24 December 2012	1,940,000	One year from the date of grant	5 years
– on 24 December 2012	1,940,000	Two years from the date of grant	5 years
Options granted to employees:			
– on 24 December 2012	4,300,000	One year from the date of grant	5 years
– on 24 December 2012	4,300,000	Two years from the date of grant	5 years
Total share options granted	12,480,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2012	
	Weighted average exercise price	**Number of options**
Outstanding at the beginning of the year	—	—
Granted during the year	**HKD 4.422**	**12,480,000**
Outstanding at the end of the year	**HKD 4.422**	**12,480,000**
Exercisable at the end of the year	—	—

The options outstanding at 31 December 2012 had an exercise price of HKD 4.422 and a weighted average remaining contractual life of 4.98 years.

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(c) Terms of unexpired and unexercised share options at the balance sheet date:

	2012	
Exercise period	Exercise price	Number of options
25 December 2013 to 24 December 2017	HKD 4.422	6,240,000
25 December 2014 to 24 December 2017	HKD 4.422	6,240,000
		12,480,000

(d) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Dividend Adjusted Black-Scholes Options Pricing model ("Black-Scholes model"). The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into Black-Scholes model.

Fair value of share options and assumptions	2012
Fair value at measurement date	HKD 1.30 to HKD 1.37
Share price	HKD 4.3
Exercise price	HKD 4.422
Expected volatility	55%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	3.25 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.108% to 0.156%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

24 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Balance of PRC income tax relating to prior years	**1,635**	2,375
Provision for PRC income tax for the year (Note 7(a))	**22,367**	26,165
Under-provision in respect of prior year	**18**	—
PRC income tax paid	**(20,311)**	(26,905)
	3,709	1,635

(b) Deferred tax liabilities recognised/not recognised:

Deferred tax liabilities as at 31 December 2012 relating to the withholding tax as described in Notes 7(b)(iv) are provided at the rate of 5% (31 December 2011: 5%) on the dividends declared or to be declared by Bloomage 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	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**547**	2,400
Charged to profit or loss	**2,026**	7,507
Reversal upon distribution of dividends	**(1,900)**	(9,360)
At 31 December	**673**	547

As at 31 December 2012, temporary differences relating to the undistributed profits of Bloomage Biopharm amounted to RMB 76,291,000 (31 December 2011: RMB 47,726,000). Deferred tax liabilities of RMB 3,845,000 (31 December 2011: RMB 1,839,000) 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 Bloomage Biopharm and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

24 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(continued)*

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in Note 2(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB 5,757,000 (31 December 2011: RMB 287,000) 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 on or before 31 December 2017.

25 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 the cost of assets.

26 WARRANTS

On 8 October 2012, the Company issued 20,000,000 unlisted warrants at the subscription price of HKD 0.02 per warrant, which entitled the holder of each warrant to subscribe for one ordinary share of the Company at an exercise price of HKD 2.65 per share at any time for a period of 12 months from the date of issue of the warrants. During the year ended 31 December 2012, the only registered holder of the warrants, Perfect Good Investment Limited, has not exercised any warrants for subscription of ordinary shares of the Company.

27 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	Share premium	Contributed surplus	Warrant reserve	Exchange reserve	Other reserve	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	27(c)	27(d)(i)	(i) below	26 and 27(d)(iii)	27(d)(iv)	27(d)(v)		
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 and 1 January 2012	**2,801**	**50,187**	**36,966**	**—**	**(7,592)**	**—**	**529**	**82,891**
Changes in equity for 2012:								
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**2,450**	**2,450**
Other comprehensive income	**—**	**—**	**—**	**—**	**19**	**—**	**—**	**19**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**19**	**—**	**2,450**	**2,469**
Issue of warrants	**—**	**—**	**—**	**327**	**—**	**—**	**—**	**327**
Transaction costs for issue of warrants	**—**	**—**	**—**	**(81)**	**—**	**—**	**—**	**(81)**
Equity settled share-based transactions	**—**	**—**	**—**	**—**	**—**	**182**	**—**	**182**
Dividends for the year ended 31 December 2011	**—**	**—**	**—**	**—**	**—**	**—**	**(2,789)**	**(2,789)**
Balance at 31 December 2012	**2,801**	**50,187**	**36,966**	**246**	**(7,573)**	**182**	**190**	**82,999**

(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.

27 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2012	2011
	RMB'000	*RMB'000*
Final dividends proposed after the balance sheet date of HK 2.0 cents per ordinary share (2011: HK 1.1 cents per ordinary share)	**5,045**	2,789

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

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2012	2011
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of HKD 1.1 cents per ordinary share (2011: HKD 1.7 cents per ordinary share)	**2,789**	4,462

(c) Share capital

	2012		2011	
	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

	2012		2011	
	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

27 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) Warrant reserve

The warrant reserve represents the net proceeds received from the issue of unlisted warrants of the Company. This reserve will be transferred to share capital and share premium account upon exercise of unlisted warrants.

(iv) Exchange reserve

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

27 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

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

(v) Other reserve

Other reserve as at 31 December 2012 mainly includes:

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

ii) capitalisation of reserve arising from transfer of retained earnings/statutory reserve. Pursuant to board resolutions of Bloomage Biopharm passed on 24 August 2005, 23 November 2007 and 12 January 2008, retained earnings/statutory reserve of Bloomage 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;

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 Bloomage 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 Bloomage 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; and

iv) reserve on equity settled share-based transactions. The amounts represent the portion of the grant date fair value of unexercised share options granted to the directors and the employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(q)(ii).

27 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(e) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB 80,198,000 (31 December 2011: RMB 80,090,000), excluding the share capital as disclosed in Note 27(c). After the balance sheet date, the directors proposed a final dividend of HK 2.0 cents per ordinary share (2011: HK 1.1 cents per ordinary share), amounting to HKD 6,240,000 (equivalent to RMB 5,045,000) (2011: HKD 3,432,000). 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 2012, the debt-to-equity ratio of the Group was 11% (31 December 2011: 14%), and the liability-to-asset ratio of the Group was 21% (31 December 2011: 24%).

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

28 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.

In respect of trade and other receivables, individual 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, 10% (2011: 28%) and 16% (2011: 36%) 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.

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

(b) Liquidity risk

Individual operating entities within the Group are responsible for their 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 its 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.

The following tables show the remaining contractual maturities at the balance sheet date of the Group's and the Company'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 and the Company can be required to pay:

The Group

	As at 31 December 2012					
	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	35,801	35,801	35,801	—	—	—
Preferred shares	54,748	105,973	9,159	9,892	34,683	52,239
	90,549	141,774	44,960	9,892	34,683	52,239

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

(b) Liquidity risk *(continued)*

	As at 31 December 2011					
	Carrying amount *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	More than 5 years *RMB'000*
Trade and other payables	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

The Company

	As at 31 December 2012			As at 31 December 2011		
	Carrying amount ***RMB'000***	**Total contractual undiscounted cash flow** ***RMB'000***	**Within 1 year or on demand** ***RMB'000***	Carrying amount *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Within 1 year or on demand *RMB'000*
Other payables	**1,656**	**1,656**	**1,656**	1,419	1,419	1,419

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

(c) 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.

(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

	2012 Exposure to Foreign currencies (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	**3,943**	**537**	**17,519**	**3,760**	**3**
Trade and other receivables	**—**	**—**	**9,557**	**—**	**—**
Trade and other payables	**(1,436)**	**—**	**(621)**	**—**	**—**
Net exposure arising from recognised assets and liabilities	**2,507**	**537**	**26,455**	**3,760**	**3**

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

(c) Currency risk *(continued)*

(i) Exposure to currency risk *(continued)*

The Group *(continued)*

	2011 Exposure to Foreign currencies (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 receivables	—	—	5,781	170	—
Trade and other payables	(1,538)	—	(248)	(99)	—
Net exposure arising from recognised assets and liabilities	5,297	2,110	9,378	1,023	91

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

(c) Currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) 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			
	2012		2011	
	Increase/ (decrease) in foreign exchange	**Increase/ (decrease) in profit after tax and retained earnings** *RMB'000*	Increase/ (decrease) in foreign exchange	Increase/ (decrease) in profit after tax and retained earnings *RMB'000*
Renminbi	**5%**	**125**	5%	265
	(5%)	**(125)**	(5%)	(265)
Hong Kong Dollars	**5%**	**23**	5%	90
	(5%)	**(23)**	(5%)	(90)
United States Dollars	**5%**	**1,129**	5%	403
	(5%)	**(1,129)**	(5%)	(403)
Japanese Yen	**5%**	**160**	5%	51
	(5%)	**(160)**	(5%)	(51)
Euros	**5%**	**—**	5%	5
	(5%)	**—**	(5%)	(5)

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

(c) Currency risk *(continued)*

(ii) Sensitivity analysis *(continued)*

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 2011.

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

(d) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorized in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

		The Group	
		2012	2011
	Level	**RMB'000**	RMB'000
Available-for-sale financial assets (Note 19)	2	**45,000**	—

All the other financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2012.

(ii) Fair values of financial instruments carried at other than fair value

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 2012 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 2012 has not been disclosed.

29 CAPITAL COMMITMENTS

At 31 December 2012, the Group had capital commitments for construction of property, plant and equipment as follows:

	2012	2011
	RMB'000	*RMB'000*
Authorised and contracted for	**35,948**	9,117
Authorised but not contracted for	**190,352**	1,100
	226,300	10,217

30 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 Bloomage Biopharm
Shandong Biopharmaceuticals Research Institute (山東省生物藥物研究院 "SBRI")	Under common control with SFP
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 Bloomage Biopharm
Shandong VIP Freda Pharmaceutical Co., Ltd. (山東明仁福瑞達制藥有限公司 "SVFP")	Subsidiary of SFP and effectively managed by key management personnel of Bloomage 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 Bloomage 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 "LFB")	Subsidiary of SFP
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
Beijing Zhaofeng Xingye Investment Advisory Co., Ltd. (北京兆豐興業投資顧問有限公司 "Beijing Zhaofeng")	Affiliate of a director of a wholly-owned subsidiary of the Company

30 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:

	2012	2011
	RMB'000	*RMB'000*
Sales of HA and heparin products to		
– SFP	**2**	—
– SFB	**100**	34
– SBRI	**12**	9
– SVFP	**—**	10
	114	53
Sales of raw materials to		
– LFB	**489**	321
– SBRI	**—**	2
– SFB	**12**	—
	501	323
Purchase of raw materials from		
– LFB	**31,132**	26,524
– SFB	**3**	2
	31,135	26,526
Dividends on preferred shares paid to SFP	**8,480**	7,853
Income from rental of buildings and plant to		
– SFP	**1,364**	1,364
– SFB	**418**	418
– SFMD	**575**	575
	2,357	2,357
Costs of rental of buildings from		
– BBC	**1,340**	—

30 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

	2012	2011
	RMB'000	*RMB'000*
Financial consultancy service received from		
– Beijng Zhaofeng	**360**	—
Advances received from		
– BBC	**306**	229
– BII	**74**	66
	380	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.

(b) Balances with related parties

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

	2012	2011
	RMB'000	*RMB'000*
Trade and other receivables		
– SFP	**1,364**	58
– SFB	**469**	—
– SFMD	**1,149**	575
– BBC	**25**	—
	3,007	633
Trade and other payables		
– LFB	**5,008**	4,518
– BBC	**456**	229
– BII	**140**	66
	5,604	4,813
Preferred shares, including current portion		
– SFP	**54,748**	54,161

30 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management personnel remuneration:

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

	2012	2011
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	**4,271**	3,628
Contributions to retirement benefit schemes	**132**	134
Equity compensates benefits (see Note 23)	**109**	—
	4,512	3,762

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).

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions with SFB, BBC, BII and Beijing Zhaofeng above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Continuing Connected Transactions" of the Report of the Directors.

31 POST BALANCE SHEET EVENT

Pursuant to a board resolution dated on 18 March 2013, the Company declared dividends of HKD 6,240,000 (equivalent to RMB 5,045,000) to its equity shareholders. Further details are disclosed in Note 27(b).

32 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company at 31 December 2012 to be AFI, which is incorporated in BVI.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments and interpretations and five new standards which are not yet effective for the year ended 31 December 2012 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 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
Revised IAS 19, *Employee benefits*	1 January 2013
Amendments to IFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Annual Improvements to IFRSs – 2009–2011 Cycle *(see also the IASB editorial corrections dated 31 July 2012 and 16 November 2012)*	1 January 2013
Amendments to IFRS 10, *Consolidated financial statements,* IFRS 11, *Joint arrangements* and IFRS 12*, Disclosure of interests in other entities – Transition guidance*	1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*	1 January 2014
Amendments to IAS 32, *Financial instruments*: *Presentation – Offsetting financial assets and financial liabilities*	1 January 2014

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012 *(continued)*

	Effective for accounting period beginning on or after
IFRS 9, *Financial instruments* (2009)	1 January 2015
Basis for conclusions on IFRS 9 (2009) *Amendments to other IFRSs and guidance on IFRS 9* (2009)	
IFRS 9, *Financial instruments* (2010) *Basis for conclusions on IFRS 9* (2010) *Implementation guidance on IFRS 9* (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 consolidated results of operations and financial position.

Group Financial Highlights

	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**274,966**	206,064	153,661	117,190	116,599
Profit from the operation	**120,848**	105,907	85,127	69,091	65,137
Finance costs	**(9,067)**	(8,970)	(8,785)	(8,996)	(10,407)
Profit before taxation	**111,781**	96,937	76,342	60,095	54,730
Income tax	**(22,511)**	(24,312)	(15,900)	(9,407)	(10,883)
Profit for the year	**89,270**	72,625	60,442	50,688	43,847
Basic earnings per share (RMB)	**0.286**	0.233	0.194	0.162	0.141
Diluted earnings per share (RMB)	**0.285**	N/A	N/A	N/A	N/A
Assets and liabilities					
Non-current assets	**214,966**	127,326	122,459	114,572	117,534
Current assets	**259,290**	254,870	180,326	131,023	97,488
Current liabilities	**(48,669)**	(43,983)	(29,520)	(29,126)	(42,716)
Total assets less current liabilities	**425,587**	338,213	273,265	216,469	172,306
Non-current liabilities	**(48,617)**	(47,983)	(49,396)	(47,145)	(44,797)
Net assets	**376,970**	290,230	223,869	169,324	127,509
Capital and reserves					
Share capital	**2,801**	2,801	2,801	2,801	2,801
Reserves	**374,091**	287,341	221,068	166,523	124,708
Total equity attributable to equity shareholders of the Company	**376,892**	290,142	223,869	169,324	127,509
Non-controlling interests	**78**	88	—	—	—
Total equity	**376,970**	290,230	223,869	169,324	127,509