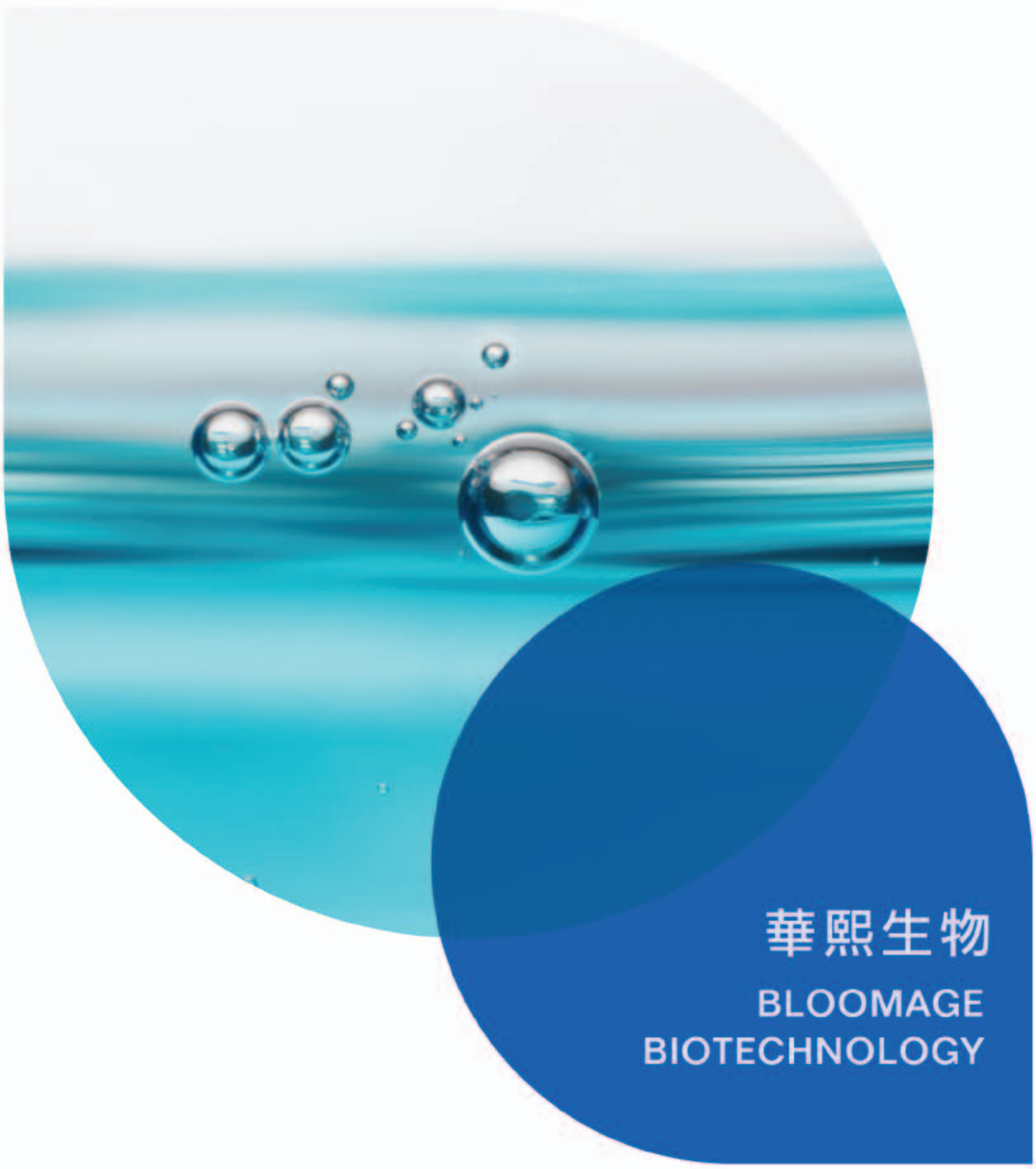
Bloomage BioTechnology Corporation Limited

華熙生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00963



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Corporate Information

EXECUTIVE DIRECTORS

Ms. Zhao Yan *(Chairman)*
Mr. Jin Xuekun *(re-designated from an Independent non-executive Director to an Executive Director on 29 October 2013 and appointed as Chief Executive Officer on 20 December 2013)*
Ms. Liu Aihua *(resigned as Chief Executive Officer on 20 December 2013)*
Ms. Wang Aihua

NON-EXECUTIVE DIRECTOR

Mr. Guo Jiajun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Zhan Lili
Mr. Hai Wen *(appointed as Independent Non-executive Director on 28 February 2014)*
Mr. Li Junhong *(appointed as Independent Non-executive Director on 28 February 2014)*
Mr. Zhang Fuping *(resigned on 28 February 2014)*
Mr. Qin Bin (resigned on 28 February 2014)

COMPANY SECRETARY

Mr. Loong Ping Kwan

AUTHORISED REPRESENTATIVES

Mr. Guo Jiajun
Mr. Loong Ping Kwan

MEMBERS OF AUDIT COMMITTEE

Mr. Li Junhong *(appointed as Chairman on 28 February 2014)*
Ms. Zhan Lili
Mr. Hai Wen *(appointed on 28 February 2014)*
Mr. Qin Bin *(resigned as Chairman and a member on 28 February 2014)*
Mr. Zhang Fuping *(appointed on 29 October 2013 and resigned on 28 February 2014)*
Mr. Jin Xuekun *(resigned on 29 October 2013)*

MEMBERS OF REMUNERATION COMMITTEE

Mr. Hai Wen *(appointed as Chairman on 28 February 2014)*
Mr. Li Junhong *(appointed on 28 February 2014)*
Mr. Jin Xuekun *(resigned as Chairman on 29 October 2013)*
Mr. Qin Bin *(resigned on 28 February 2014)*
Ms. Wang Aihua *(resigned on 29 October 2013)*
Mr. Zhang Fuping *(appointed on 29 October 2013 and resigned on 28 February 2014)*

MEMBERS OF NOMINATION COMMITTEE

Ms. Zhan Lili *(appointed as Chairman on 29 October 2013)*
Mr. Hai Wen *(appointed on 28 February 2014)*
Ms. Liu Aihua
Mr. Zhang Fuping *(resigned on 28 February 2014)*
Mr. Jin Xuekun *(resigned on 29 October 2013)*

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

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

00963

COMPANY WEBSITE

www.bloomagebio-tech.com

PRINCIPAL BANKERS

Jinan Branch of the Bank of China
China Everbright Bank

Group Overview

Bloomage BioTechnology Corporation Limited (the "Company", and together with its subsidiaries, the "Group") is an investment holding company. Its principal operating subsidiaries are principally engaged in the development, manufacture and sale of a diversified range of hyaluronic acid ("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 in the market 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 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. End products involve various aspects such as beauty care, pharmaceuticals and daily life. The Group has successfully developed and obtained relevant qualifications for Hyaluronan Soft Tissue Filling Gel (trade name "BioHyalux"), Medical Sodium Hyaluronate Gel for ophthalmologic use (trade name "Hymois") and bone products for intra-articular injection (trade name "Hyprojoint"), that involve various aspects such as beauty care, pharmaceuticals and daily life.

To all Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Bloomage BioTechnology Corporation Limited (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 2013. The Group achieved a satisfactory result in 2013. The annual turnover amounted to approximately RMB375,180,000, representing an increase of approximately 36.45% as compared to the year ended 31 December 2012 and the profits attributable to shareholders was approximately RMB94,398,000 with a growth of approximately 5.74% as compared to the year ended 31 December 2012.

FINAL DIVIDEND AND CLOSURE OF REGISTER

The Board has recommended the payment of a final dividend of HKD1.9 cents per share of the Company (the "Share") for the year ended 31 December 2013 (2012: HKD2 cents per Share). Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "AGM") to be held on 28 May 2014 or any adjourned meeting, the above dividend is expected to be paid on or around 25 June 2014.

The transfer books and register of members of the Company will be closed from 23 May 2014 to 28 May 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30p.m. on 22 May 2014. In addition, the transfer books and register of members of the Company will be closed from 4 June 2014 to 6 June 2014 (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 3 June 2014. During such periods, no share transfers will be effected.

BUSINESS REVIEW

The Group continued to achieve good progress in the year of 2013. Annual turnover amounted to approximately RMB375,180,000, representing an increase of approximately 36.45% as compared to the year ended 31 December 2012 and the profits attributable to shareholders was approximately RMB94,398,000 with a growth of approximately 5.74% as compared to the year ended 31 December 2012. The increase was primarily attributable to the successful transformation of the Group's business and the rapid development of the new business.

The market environment for the raw materials industry was not optimistic in 2013. On one hand, the recovery of the world economy was relatively slow. Global market demand lacked growth momentum. On the other hand, with the continuous expansion of the application areas of hyaluronic acid raw materials, the increasing number of new raw materials supply enterprises and their production capacity expansion in the last two years had intensified competition in the industry. Accordingly, the Group's HA raw materials business experienced a slowdown.

Meanwhile, relying on the strong development trend of the medical cosmetic industry in China and the favorable market environment, the Group's end product business achieved rapid growth. In 2013, the Group's BioHaylux achieved basic coverage in mainland China and has become a well-known brand of injection cosmetic filler products in China.

The construction and equipment procurement of new biological industrial park located in Jinan City, Shandong Province, PRC has been accelerated and it is expected that the new production plant will further expand the production capacity and enhance production technique after being put into operation in the second half of 2014 in order to strengthen the Group's competitive advantage and economies of scale as a whole.

As a result of the implementation of effective strategy, the Group had achieved growth in its operating result in 2013 and sustained a continuous business growth.

OUTLOOK

Looking ahead, domestic institutional reform is expected to provide the impetus of economic growth, while the global economic situation will remain unstable despite continuous recovery of the US economy since 2013 which has to certain extent strengthened market confidence. The Group will timely comply with international and domestic situations to seize opportunities and respond to the upcoming challenges, strive to maintain the steady growth of HA materials business and further promote the rapid development of end products business to make it become the main new growth point of the Group' s business.

In 2014, the Group will face an even more severe and complicated market environment. For the conventional raw materials business, the Group will further implement model innovation and explore new business opportunities while continuing to maintain its original market position and competitive advantages and deeply explore room for cooperation in domestic and overseas markets to achieve the steady growth of the raw materials business. In 2014, the end product business, BioHaylux, may face intense competition from similar products under various domestic and foreign brands. The Group will deploy development strategies and develop a range of end cosmetic products with BioHaylux as the core to further expand the market share and enhance brand awareness while consolidating the existing market share for achieving better sales performance.

As in the past, the Group will focus on technology improvement and new product development so as to maintain its product innovation capability and competitive edge. With diversified development and continuous improvement of its business, the Group will further recruit talented people within the industry and expand the management, R&D and the market teams. Besides, the Group will actively look for suitable investment opportunities which would create synergistic effect with the existing business, and gradually expand the scale of operations in order to further 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, achieve rapid development and to create long-term and maximum values for shareholders.

APPRECIATION

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

Zhao Yan

Chairman
20 March 2014

Management's Discussion and Analysis

BUSINESS REVIEW

The Group is principally engaged in the production and sales of various Hyaluronic Acid ("HA") raw materials, and focuses on developing downstream business of HA end products. The Group has successfully developed new HA end products such as Hyaluronan Soft Tissue Filling Gel (trade name "BioHyalux"), Medical Sodium Hyaluronate Gel for ophthalmologic use (trade name "Hymois") and bone products for intra-articular injection (trade name "Hyprojoint").

In 2013, developed economies including the U.S., Japan and Europe showed signs of recovery but the growth was moderate, while China's economy was full of uncertainties. After more than ten years of market cultivation, the HA market has developed from a rapidly growing stage to one which is gradually stabilizing. In respect of the overall downstream demand, the domestic pharmaceutical industry was in a rapid development period and the growth rate of cosmetic consumption was also relatively stable. On the supply side, industrial competition has become more intense due to entry of new raw material supplying enterprises into the market and capacity expansion of existing supplying enterprises. The Group focused on further investment in the field of HA. Leveraging its competitive advantage, the Group actively responded to changes in market conditions and competitive situation to consolidate existing market shares while seizing shares of incremental markets, and managed to achieve satisfactory results despite a slowdown of growth.

China's cosmetic treatment industry still maintained strong growth momentum in recent years. At present, cosmetic treatment has begun to change from high-end demand to popular demand in China. The Group timely used the favourable development environment to deploy active development strategies and favourable marketing strategies. The sales results of BioHaylux achieved rapid growth.

The Group's annual turnover amounted to approximately RMB375,180,000 in the year ended 31 December 2013, representing an increase of approximately 36.45% as compared to the corresponding period of 2012. The Group's gross profit increased by approximately 57.28% from approximately RMB190,649,000 in 2012 to approximately RMB299,859,000 in the year ended 31 December 2013 and the profit attributable to equity shareholders of the Company increased by approximately 5.74% from approximately RMB89,272,000 in the year ended 31 December 2012 to approximately RMB94,398,000 in the year ended 31 December 2013. 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 HKD1.9 cents per share for the year ended 31 December 2013 (2012: HKD2 cents per share) to the Shareholders whose names appear on the register of members of the Company on 6 June 2014, amounting to approximately HKD6,308,000 in total.

HA Raw Materials – Strengthening customer relationship through brand customer influence and technology service

In 2013, the Group, leveraging its advantages in quality and technology services of HA products, continued to strengthen formulation research and development and business cooperation with various domestic and international customers of leading cosmetic, medical and food brands, so as to enhance the brand effect and value of the Group through the influence of brand customers.

The Group will continue to deepen the strategy of quality customer service and consolidate the source of quality customer through targeted technical support which cater more to customer demands.

HA End Product – Establishing brand image and promoting the implementation of sales

In 2013, the Group actively developed the HA end product market while maintaining the steady growth of the HA raw materials business. BioHaylux achieved rapid growth. For marketing strategy, the Group strived to establish brand awareness and influence. In 2013, the Group strengthened brand promotion and successfully entered into strategic partnership with various leading medical cosmetic treatment groups in China and secured relatively large market shares in major markets such as Beijing, Shanghai, Guangzhou and Chengdu. The Group also gradually enhanced its awareness and influence among end consumers through various manners. At present, the internet search popularity of "BioHaylux" is at the same level as other major brands in the injection filler sector.

For sales strategy, the Group focused on the characteristics of customers in each region for reasonable allocation of resources and design of sales distribution. The Group actively grew the sales team to provide professional and personalized service to end customers. Meanwhile, the Group strengthened marketing to strive for larger market share. As at the end of 2013, BioHaylux had achieved sales in 29 provinces and 95 cities in China, and formed positive sales momentum, especially in regions to the south of the Yangtze River, which laid a solid foundation for further improvement on sales results.

Technology research and development – Technology improvements increase quality and effectiveness while research and development as well as innovation increases standard and strength

To ease the profit pressure from market competition, the Group focused on improving the quality and economic efficiency of products through the improvement of production technology. The HA fermentation production process and the formulation optimization project led to a significant increase in the bulk production volume of raw material products, while improvements in production processes such as HA purification increased the production efficiency and reduced the production cost.

Management's Discussion and Analysis

In 2013, the Group actively allocated manpower and material resources to make every effort to promote the research and development of new products. In connection with the research and development of HA raw materials, with the production process attaining the leading standard in the industry, the new product oil dispersion sodium hyaluronate Hyacolor™ was successfully launched in the market in October 2013. For the research and development of end products, "Hyaluronan Soft Tissue Filling Gel" was included as a national key new product plan for 2013. The "Research and Development and Commercialization of New Biological Material for Cosmetic Treatment Cross-linked HA Filler Gel" was included as an independent innovation plan of Shandong Province for 2013. In 2013, the Company also conducted studies on the effects and safety of HA and other new products, increased the standard for the research and development of the features of its products and enhanced its technical service capability.

Driving the market platform by upgrading qualifications and ensuring the sustained development of new product reserve

In 2013, in order to diversify its product offerings, the Group made full efforts to complete product submission and qualification upgrade and achieved good results. For raw material products, one new product of raw material for medical use obtained the U.S. FDA registration and two other products obtained South Korea's KFDA registration permit. The injection-grade sodium hyaluronate raw material obtained the drug registration approval of China. For end products, the three models of the products Hyprojoint and Hyaluronan Soft Tissue Filling Gel obtained the European Union CE certification. The obtaining of these qualifications provided important support for the Group to diversify its product mix and expand its markets.

Team building – Recruiting industry elites and laying the development cornerstone for team training

In 2013, the Group recruited industry elites, especially Mr. Jin Xuekun, the Group's newly appointed Chief Executive Officer, to join the Group such that the Group has been strengthened in a large extent in terms of development strategies, marketing strategies and team building.

In 2013, the Group stepped up its efforts on team building and training. For raw materials, focus was put on enhancing training in respect of overall quality and professional skills of staff, and on recruitment of new staff to fill posts for areas such as technology research and development, market development as well as production and operation so as to introduce new recruits for the existing teams. Accordingly, the quality and professional standard of the teams were substantially improved, which effectively supported the steady and rapid development of the Company. In relation to team building for the end products, the Group recruited industry elites to strengthen the talent team. As of the end of 2013, the Group has basically completed the formation of the BioHyalux team, and has established an organizational structure with sales as the core, market as the pillar and product training as the support.

Expanding the organization structure to enhance the capability of subsequent development

To cope with the need for the Group's rapid development and enhancement of development capacity, the Group has been actively preparing for the construction of a cosmetics production plant and, on 4 September 2013, set up Bloomage Heng Mei Shang Mao Co., Ltd., to engage in the sales of end products other than medical devices. The production base for Shandong Bloomage Hyinc Biopharm Company Limited, with its construction in full swing, is expected to be commissioned in the second half of 2014.

BUSINESS OUTLOOK

The Group aims at developing into a leader of the industry chain of HA by fully demonstrating the advantages in research and development capabilities, product quality and production capacity.

HA raw material - Leveraging business innovation and strategic cooperation to expand sales

In 2014, competition in the hyaluronic acid raw material market will become increasingly intense. While persisting in the high-end brand strategy, the Group will select quality enterprises or distribution agents on the principle of win-win, mutual benefits and joint development for strategic cooperation in multiple forms from product to channel. The Group will innovate its business model and expand its sales channels. Looking ahead to 2014, the trend of economic recovery will continue in the United States, Europe and Japan. Being an important component, the hyaluronic acid overseas sales business is expected to achieve positive growth momentum. The Group will expand its overseas market business when appropriate. The Group will fully further develop overseas product markets by developing local resources.

HA end products – Taking advantage of model innovation to expedite the sales of end products

A long-term and rapid growth stage for the micro plastic industry, especially in the field of hyaluronic acid fillers is foreseeable in the future. China is the world's second largest market after the United States in terms of hyaluronic acid injection despite the small volume of application which is only one-third of that of the United States. Looking ahead, beauty care by HA injection will continue to maintain rapid growth in China, with the application transiting from an extensive stage to a stage of rational choice, offering broader growth space for formal quality products, which will create more opportunities than challenges for the Group.

In 2014, apart from the existing BioHyalux which has been launched in the market, the Group will also offer other series of products with HA as the major functional constituent. The Group will take this opportunity to continue to step up its efforts in the marketing of end products, enhance cooperation with leading medical cosmetic treatment institutions in China and innovate the marketing model to provide comprehensive and scientific skin manger solutions for end consumers. Apart from increasing the brand influence on the existing end consumer groups through joint marketing activities with medical cosmetic treatment institutions, the Group will influence consumer groups, increase consumer interaction and enhance its brand image through various media platforms so as to strive for an advantageous position amidst future market competition.

Technology research and development – Focus on R&D and extension of new products series

In 2014, the Group's research centre will gradually achieve a comprehensively structural system with raw material products, end products and registration process managed on a project basis. 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 research and development of raw material products, the Group will expand the scope of research in the multiple directions of HA raw materials, HA derivatives and non-HA fermented products and extend the raw material product line. For the research and development of end products, the Group will expedite the research and registration of beauty filler products and enrich filler products varieties. By optimizing the product production process, the Group will develop injection filler products that meet different needs. On the other hand, Hyprojoint, which is used for treating osteoarthritis, is expected to pass the CFDA certification from China Food and Drug Administration ("CFDA") in 2014. Besides, the Group will continue the development of other HA related products, extend product lines and enhance the new products technical reserve to satisfy changing market needs. Meanwhile, the Group will continue to enhance new product registration and qualification application, facilitate the launch of new products in the market as quickly as possible and conduct marketing in more regions in the world.

Team building – Comprehensive team building for rapid development of human resources reserve

For team building, the Group will gradually improve its organization and management structures according to the development and upgrade of its operations, and will continue to focus on the recruitment of experienced professionals for management and marketing as well as high-end research and development. Apart from recruiting external talents, the Group will strive to strengthen the training on overall quality and professional skills of staff through internal training, on-the-job learning and other means to ensure provision of quality human resources for the Group's future business expansion.

FINANCIAL REVIEW

Turnover

The Group's turnover for the year ended 31 December 2013 was approximately RMB375.180 million, representing an increase of approximately 36.45% or approximately RMB100.214 million as compared to the corresponding period of 2012. The increase in turnover was mainly attributable to the increase in sales of the HA end products BioHaylux.

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

	For the year ended 31 December			
	2013		**2012**	
	RMB'000	*%*	*RMB'000*	*%*
HA raw materials	**286,634**	**76.4**	265,247	96.5
HA end products	**86,759**	**23.1**	8,816	3.2
Others	**1,787**	**0.5**	903	0.3
Total	**375,180**	**100.0**	274,966	100.0

Cost of sales

Cost of sales for the year ended 31 December 2013 was approximately RMB75.321 million, representing a decrease of approximately 10.67% as compared to approximately RMB84.317 million for the corresponding period of 2012. The decrease was mainly attributable to the enhancement of production efficiency.

Gross profit margin

The Group's gross profit margin for the year ended 31 December 2013 increased to approximately 79.9% from approximately 69.3% in the year ended 31 December 2012. The increase was mainly due to the increase in sales of HA end products with higher gross profit margin.

Other revenue

Other revenue of the Group was approximately RMB12.967 million for the year ended 31 December 2013, representing an increase of 49.9% from approximately RMB8.650 million for the year ended 31 December 2012. The increase in other revenue was mainly attributable to the increase in the government grants received as compared to 2012.

Distribution costs

The Group's distribution costs for the year ended 31 December 2013 were approximately RMB58.618 million, representing an increase of approximately 76.8% from approximately RMB33.154 million for the year ended 31 December 2012. The increase was mainly attributable to the increase in sales volume of HA end products which is in line with the Group's strategy on promotion enhancement and business development.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2013 were approximately RMB116.109 million, representing an increase of approximately 163.3% from approximately RMB44.099 million for the year ended 31 December 2012. The increase in administrative expenses was mainly due to the increase in staff costs resulting from the non-cash equity-settled share-based payment expenses and the recruitment of additional staff. Excluding the effect of the non-cash equity-settled share-based payment expense of approximately RMB57.285 million (2012: RMB0.182 million), the Group's administrative expenses for the year ended 31 December 2013 were approximately RMB58.824 million (2012: RMB43.917 million) representing an increase of approximately 33.9% as compared with the corresponding period of 2012.

Other operating expenses

The Group's other operating expenses for the year ended 31 December 2013 were approximately RMB2.357 million, representing an increase of approximately 96.7% from approximately RMB1.198 million for the year ended 31 December 2012.

Finance costs

The Group's finance costs for the year ended 31 December 2013 were approximately RMB9.983 million, representing an increase of approximately 10.1% from approximately RMB9.067 million for the year ended 31 December 2012. The Group's finance costs mainly represented the dividends on the preferred shares. The increase was mainly attributable to the increase of interest on bank loan.

Profit for the year

The Group's profit for the year ended 31 December 2013 was approximately RMB94.397 million, representing an increase of approximately 5.7% from approximately RMB89.270 million for the year ended 31 December 2012. Excluding the effect of the non-cash equity-settled share-based payment expenses of approximately RMB57.285 million (2012: RMB0.182 million), the Group's profit for the year ended 31 December 2013 was approximately RMB151.682 million (2012: RMB89.452 million) representing an increase of approximately 69.57% as compared with the corresponding period of 2012.

Final dividend

The Board proposed the payment of a final dividend of HKD1.9 cents (2012: HKD2 cents) per share to the Shareholders whose names appear on the register of members of the Company on 6 June 2014. 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 25 June 2014.

Closure of register of members

The transfer books and register of members of the Company will be closed from 23 May 2014 to 28 May 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 22 May 2014. In addition, the transfer books and register of members of the Company will be closed from 4 June 2014 to 6 June 2014 (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, at the abovementioned address for registration no later than 4:30 p.m. on 3 June 2014. During such periods, no share transfers will be effected.

Liquidity, capital structure and financial resources

As at 31 December 2013, the Group had current assets of approximately RMB431.984 million (2012: approximately RMB259.290 million) and current liabilities of approximately RMB122.644 million (2012: approximately RMB48.669 million). The current ratio of the Group as at 31 December 2013 was approximately 352.2% (2012: approximately 532.8%).

As at 31 December 2013, the Group had cash and cash equivalents of approximately RMB169.429 million (2012: approximately RMB120.810 million), of which approximately 71% (2012: approximately 69%) was denominated in RMB, approximately 24% (2012: approximately 13%) in HKD, approximately 4% (2012: approximately 15%) in United States Dollars ("USD") and approximately 1% (2012: approximately 3%) in Japanese Yen ("JPY"). Total liabilities of the Group amounted to approximately RMB203.961 million (2012: approximately RMB97.286 million) as at 31 December 2013.

As at 31 December 2013, the Group's total borrowing was approximately RMB36,000,000 (31 December 2012: Nil), all of which was denominated in RMB (31 December 2012: Nil).

As at 31 December 2013, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was approximately 26.5% (2012: approximately 20.5%). The increase in gearing ratio as at 31 December 2013 as compared to that as at 31 December 2012 was principally attributable to the increase in total liabilities resulting from the Group's business operation.

Net cash generated from operating activities for the year ended 31 December 2013 was approximately RMB155.327 million (2012: approximately RMB83.618 million).

Net cash used in investing activities for the year ended 31 December 2013 was approximately RMB167.642 million (2012: approximately RMB140.259 million), mainly representing the expenditure for acquistion of available-for-sale financial assets and construction of a new factory in Jinan City, Shandong Province, the PRC.

Net cash generated from financing activities for the year ended 31 December 2013 was approximately RMB62.812 million (2012: net cash outflow of approximately RMB11.023 million), mainly representing the proceeds from exercise of warrants and bank loan, netting off with the payment of dividends on preferred shares of RMB9.159 million and the payment of dividends to equity shareholders of the Company of approximately RMB5.043 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.

Financial policies

It is the Group's treasury management policy not to engage in any investments or speculative derivative instruments with high risks. During the year ended 31 December 2013, the Group continued to adopt a conservative approach in financial risk management. Most of the assets, receipts and payments of the Group are denominated in RMB.

Exchange risk exposure

The Group's sales were principally made in RMB, USD and JPY, with the majority of which was denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to have a material impact on 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 year ended 31 December 2013.

Contingent liabilities

As at 31 December 2013, the Group had no material contingent liabilities.

Capital commitment

As at 31 December 2013, the capital commitment of the Group was approximately RMB141.436 million (2012: approximately RMB226.300 million).

Employee information

As at 31 December 2013, the Group had 470 (2012: 382) employees, the majority of whom were stationed in the PRC. Total remuneration for the year ended 31 Decemer 2013 amounted to approximately RMB112.938 million (2012: approximately RMB36.906 million). The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed on a performance-related basis.

Charge on assets

As at 31 December 2013, the Group has pledged bank deposits of RMB36 million for the bank loan borrowed from a bank.

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

The Group did not have any significant investment, material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2013.

DIRECTORS

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

EXECUTIVE DIRECTORS

Ms. Zhao Yan, aged 47, is the Chairman and an executive Director. Ms. Zhao had been a director of Bloomage Freda Biopharmaceutical Co., Ltd. ("Bloomage Biopharm") since 2003. Except for Bloomage Freda Biopharm USA Inc. and Bloomage Heng Mei Shang Mao Co., Ltd., 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 holds approximately 54.98% of the shares of the Company.

Mr. Jin Xuekun, aged 49, has been re-designated from an independent non-executive Director to an executive Director on 29 October 2013, and served as Chief Executive Officer since 20 December 2013. Mr. Jin is a director of Bloomage Biopharm, Beijing Bloomage Hyinc Technology Company Limited ("Beijing Bloomage Hyinc") and Shandong Bloomage Hyinc Biopharm Company Limited ("Shandong Bloomage Hyinc"). Mr. Jin graduated from Fordham University with a master's degree of Business Administration in 2002. Mr. Jin has over 20 years' experience in the sale and marketing of medical instruments and he was able to bring remarkable improvements to the performance and results of the companies he worked at during his service in these companies. He worked at China Rehabilitation Research Center from 1987 to 1993 and was responsible for medical imaging. From 1994 to 2001, he worked at Sanko Medical Ltd. and was responsible for PRC market. 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. During that period, Mr. Jin adopted the direct mixed marketing model and brought innovation in respect of strategy formation, establishment of brand and team culture and marketing strategy to that company. Since 2006, Mr. Jin has been the general manager of Esaote (Shenzhen) Medical Equipment Co. Ltd. and has been responsible for the operation in the PRC in respect of the manufacturing, research and development of equipment. While serving as the general manager of Esaote (Shenzhen) Medical Equipment Co. Ltd., Mr. Jin has put emphasis on the management of corporate strategy, innovation of business model, establishment of corporate culture and reform in areas such as efficiency of structure, optimization of process, integration of resources and incentive systems. Mr. Jin had been an independent non-executive Director from 18 June 2012 to 29 October 2013.

Biography of Directors and Senior Management

Ms. Liu Aihua, aged 51, is an executive Director. She had been the chief executive officer of the Company from 18 June 2012 until 20 December 2013. 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 30 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.

Ms. Wang Aihua, aged 35, is an executive Director. 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 economic 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 38, is an non-executive Director. He had been the chief executive officer of the Company from 3 November 2009 to 18 June 2012 and an executive Director and was re-designated as a non-executive Director on 18 June 2012. He had entered into a service agreement with the Company for a term commencing from 16 May 2013 until the conclusion of the 2013 annual general meeting of the Company to be held in 2014. 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 is the vice general manager of Bloomage International. Mr. Guo is responsible for supervising the performance of the Group and advising on its development plan. Mr. Guo joined the Group in March 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Zhan Lili, aged 41, is an independent non-executive Director. She had entered into a service agreement with the Company for a term commencing from 16 May 2013 until the conclusion of the 2014 annual general meeting of the Company to be held in 2015. She completed her studies in business administration at the Faculty of Business Administration of Capital University of Economics and Business in 2003. Ms. Zhan was an assistant to the General Manager of Tomson (Shanghai) Company Limited (湯臣高爾夫 (上海) 有限公司) from 2000 to 2001, worked in the human resource department of the Beijing branch of Industrial Bank Co., Ltd. (興業銀行) from 2003 to 2007 and has been a president assistant of Beijing Hai Dian Science & Technology Development Co., Ltd. (北京海澱科技發展有限公司), a company engaged in electronics and information technology, environmental protection materials, property development and e-business, since 2007.

Mr. Hai Wen, aged 61, was appointed as an independent non-executive Director on 28 February 2014. He had entered into a service agreement with the Company on 28 February 2014 for a term of 1 year. He graduated from Peking University with a Bachelor's degree in economics in 1982. He obtained a doctorate degree in Economics from the University of California, Davis in 1991. He is a professor in Economics and doctoral supervisor of Peking University and currently serves as the deputy director of the University Council of Peking University (北京大學校務委員會) and the dean of the HSBC Business School of Peking University (北京大學滙豐商學院). He had been a permanent deputy director of The China Center for Economic Research at Peking University (北京大學中國經濟研究中心), vice principal of Peking University and the dean of the Shenzhen Graduate School of Peking University (北京大學深圳研究生院). Mr. Hai had compiled and translated more than ten books on economics and has won several awards in the fields of economics and education.

Mr. Li Junhong, aged 47, was appointed as an independent non-executive Director on 28 February 2014. He had entered into a service agreement with the Company on 28 February 2014 for a term of 1 year. He graduated from Central University of Finance and Economics (中央財經大學) with a Bachelor's degree in accounting in 1989. He studied in the International Executive Master of Business Administration programme at the China Center for Economic Research at Peking University (北京大學中國經濟研究中心) from 2000 to 2002 and obtained a Master of Business Administration from Fordham University in 2002. He is also a member of The Chinese Institute of Certified Public Accountants. From January 2008 to December 2008, Mr. Li had been an executive director of Hong Kong Life Sciences and Technologies Group Ltd. (香港生命科學技術集團有限公司) (formerly known as Zmay Holdings Limited and New Chinese Medicine Holdings Limited) (stock code: 8085), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. He has over 20 years of experience in auditing, accounting, merger and acquisition consultancy and management consultancy with local accountants firms and private companies. He was a partner in Beijing Tianhua CPAs (北京天華會計師事務所). Mr. Li is now the executive vice president and the financial controller of Zhongrong Financial Investment Management Company Limited (中融金匯投資管理有限公司).

SENIOR MANAGEMENT

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

Mr. Gong Anmin, aged 48, was appointed as the chief financial officer of the Company in January 2014. Mr. Gong graduated with a bachelor's degree in economics with major in banking and accounting from the Central University of Finance and Economics in 1988 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. He had worked in several large state-owned enterprises and foreign enterprises for years, and thus had extensive experience in financial management and corporate governance.

Mr. Guo Xueping, aged 49, 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. Yau Waiyan, aged 38, 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. Mr. Yau is a director of Beijing Bloomage Hyinc.

COMPANY SECRETARY

Mr. Loong Ping Kwan, aged 49, 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 has been 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 2013.

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 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 49.

Subject to approval by the shareholders at the AGM, the Directors recommended the payment of a final dividend of HKD1.9 cents for the year ended 31 December 2013 to shareholders whose names appear on the register of members of the Company on 6 June 2014, amounting to approximately HKD6,308,000 in aggregate.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from 23 May 2014 to 28 May 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 22 May 2014. In addition, the transfer books and register of members of the Company will be closed from 4 June 2014 to 6 June 2014 (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 3 June 2014. 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 2013 and the assets and liabilities of the Group as at 31 December 2009, 2010, 2011, 2012 and 2013 are set out on page 130.

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.

SIGNIFICANT CHANGE IN FIXED ASSETS

Mainly due to the construction and equipment procurement of a new production plant in Jinan City, there had been a significant increase in construction in progress in the year ended 31 December 2013 as compared with the corresponding period last year. Details of the movements in the Group's construction in progress during the year ended 31 December 2013 are set out in Note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 31 December 2013 are set out in Note 28(c) to the financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year ended 31 December 2013 are set out in the consolidated statement of changes in equity and Note 28(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, KEY MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors, the key management and the top five highest paid individuals of the Group are set out in Notes 8, 31(c) and 9 to the financial statements.

The emoluments of the five individuals (which include members of the key management) with the highest emoluments are within the following bands:

	2013	2012
HKD Nil ~ HKD 1,000,000	**—**	4
HKD 1,000,001 ~ HKD 1,500,000	**1**	1
HKD 1,500,001 ~ HKD 2,000,000	**1**	—
HKD 3,000,001 ~ HKD 3,500,000	**2**	—
HKD 60,000,001 ~ HKD 60,500,000	**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)*
Mr. Jin Xuekun *(re-designated from an independent non-executive Director to an executive Director on 29 October 2013 and appointed as Chief Executive Officer on 20 December 2013)*
Ms. Liu Aihua *(resigned as Chief Executive Officer on 20 December 2013)*
Ms. Wang Aihua

Non-executive Director:

Mr. Guo Jiajun

Independent non-executive Directors:

Ms. Zhan Lili
Mr. Zhang Fuping (resigned on 28 February 2014)
Mr. Qin Bin (resigned on 28 February 2014)

Each of Ms. Liu Aihua, Ms. Wang Aihua, Mr. Guo Jiajun, Mr. Li Junhong and Mr. Hai Wen 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. Hai Wen and Mr. Li Junhong, all are independent non-executive Directors and as at the date of this annual report still considers them to be independent.

Each of Ms. Zhao Yan and Ms. Liu Aihua has entered into a service contract for a term commencing from 16 May 2013 to the 2014 annual general meeting to be convened in 2015. Mr. Jin Xuekun has entered into a service contract for a term commencing from 29 October 2013 to the 2015 annual general meeting to be convened in 2016. Ms. Wang Aihua has entered into a service contract for a term commencing from 16 May 2013 to the 2013 annual general meeting to be convened in 2014. Each of the executive Directors and the Company may terminate the appointment by giving the other party not less than three months' prior notice in writing. Mr. Guo Jiajun has entered into a service contract for a term commencing from 16 May 2013 to the 2013 annual general meeting to be convened in 2014. Ms. Zhan Lili has entered into a service contract for a term commencing from 16 May 2013 to the 2014 annual general meeting to be convened in 2015. Each of Mr. Hai Wen and Mr. Li Junhong has entered into a service contract for a term of one year commencing from 28 February 2014. 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 17 to 21.

SHARE OPTION SCHEME

In order 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 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.

In addition, on 29 October 2013, 3,320,000 share options to subscribe for a total of 3,320,000 Shares were granted to certain employees of the Company and each share option shall entitle the holder to subscribe for one Share at the exercise price of HKD16.652 per Share, provided that all share options would become exercisable on the condition that the performance target for the relevant period has been achieved. 25% of the share options may be exercised within the period from 30 October 2014 to 29 October 2018, 25% of the share options may be exercised within the period from 30 October 2015 to 29 October 2018, 25% of the share options may be exercised within the period from 30 October 2016 to 29 October 2018, and the remaining 25% of the share options may be exercised within the period from 30 October 2017 to 29 October 2018. Details of the grant of share options are set out in the announcement of the Company dated 29 October 2013.

Furthermore, on 29 October 2013, 6,640,000 share options to subscribe for a total of 6,640,000 Shares were granted to Mr. Jin Xuekun under the Scheme and each share option shall entitle Mr. Jin to subscribe for one Share at the exercise price of HKD16.652 per Share, provided that all share options would become exercisable on the condition that the performance target for the relevant period has been achieved. 25% of the share options may be exercised within the period from 23 December 2014 to 22 December 2018, 25% of the share options may be exercised within the period from 23 December 2015 to 22 December 2018, 25% of the share options may be exercised within the period from 23 December 2016 to 22 December 2018, and the remaining 25% of the share options may be exercised within the period from 23 December 2017 to 22 December 2018. Details of the grant of share options are set out in the announcement of the Company dated 29 October 2013.

Apart from the share options granted on 24 December 2012 and 29 October 2013 as mentioned above, the total number of securities available for issue under the Scheme as at the date of this annual report was 8,760,000 Shares which represented approximately 2.64% 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 2013 is as follows:

Name and category of participant	As at 1 January 2013	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	As at 31 December 2013	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
	Number of unlisted 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 to 24 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
	—	6,640,000	—	—	6,640,000	29 October 2013	25%: 23 December 2013 to 22 December 2014 25%: 23 December 2013 to 22 December 2015 25%: 23 December 2013 to 22 December 2016 25%: 23 December 2013 to 22 December 2017	22 December 2018	15.8
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
	—	3,320,000	—	—	3,320,000	29 October 2013	25%: 29 October 2013 to 29 October 2014 25%: 29 October 2013 to 29 October 2015 25%: 29 October 2013 to 29 October 2016 25%: 29 October 2013 to 29 October 2017	29 October 2018	15.8
Total	12,480,000	9,960,000	—	—	22,440,000				

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.

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

As at 31 December 2013, the interests and short positions of the Directors and/or chief executive of the Company in any shares (the "Shares"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to Section 352 of the Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Interests and short positions in Shares and underlying Shares

Name of Director	Nature of interest	Number of Shares/underlying 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)*	54.98%
Ms. Liu Aihua	Interest of a controlled Corporation *(Note 3)*	4,544,000(L)	1.37%
	Beneficial owner *(Note 3 and 4)*	2,190,000(L)	0.66%
Mr. Guo Jiajun	Beneficial owner *(Note 4)*	700,000(L)	0.21%
Ms. Wang Aihua	Beneficial owner *(Note 4)*	680,000(L)	0.20%
Mr. Jin Xuekun	Interest of a controlled Corporation *(Note 5)*	16,600,000(L)	5%
	Beneficial owner *(Note 4)*	6,950,000(L)	2.09%

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 purpose of the SFO.

(3) The 4,544,000 Shares 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 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.

(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. On 29 October 2013, 6,640,000 share options were conditionally granted to Mr. Jin Xuekun pursuant to the Scheme and were approved by the independent shareholders at the extraordinary general meeting held on 23 December 2013.

(5) The 16,600,000 warrants are held by Wealthy Delight Group Limited ("Wealthy Delight"), which is wholly-owned by Mr. Jin Xuekun. Therefore, Mr. Jin Xuekun is deemed, or taken to be, interested in all the warrants beneficially owned by Wealthy Delight for the purpose of the SFO.

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

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

Save as disclosed above, as at 31 December 2013, 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 AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2013, 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 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 of substantial shareholders	Nature of interest	Number of Shares/underlying Shares held	Percentage of the issued capital of the Company
AFI *(Note 2)*	Beneficial owner	182,520,000(L) *(Note 1)*	54.98%
Mr. Wang Yi *(Note 3)*	Interest of spouse	182,520,000(L)	54.98%
Wealthy Delight *(Note 4)*	Beneficial owner	16,600,000	5.00%
Zhang Lanying *(Note 5)*	Interest of spouse	23,550,000	7.09%
Yong Rong Global Excellence Fund	Beneficial owner	20,555,000	6.19%

Notes:

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

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

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

(4) On 27 December 2013, 16,600,000 warrants of the Company were granted to Wealthy Delight, entitling the holder thereof to subscribe for 16,600,000 Shares.

(5) Ms. Zhang Lanying is the spouse of Mr. Jin Xuekun. Under the SFO, Ms. Zhang Lanying is deemed, or taken to be, interested in all the shares options and warrants in which Mr. Jin Xuekun is interested.

On 27 December 2013, 16,600,000 warrants of the Company (each of which carries the right to subscribe for one Share, and in aggregate represented approximately 5% of the existing issued capital of the Company) were issued to Wealth Delight, details of which are set out in the paragraph headed "Connected Transaction – Issue of Unlisted Warrants to Mr. Jin Xuekun" below.

Save as disclosed above, as at 31 December 2013, 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 ended 31 December 2013 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.

APPOINTMENT, REDESIGNATION AND CHANGE OF MEMBERS OF COMMITTEES

The following changes took effect from 29 October 2013:

(1) Mr. Jin Xuekun ("Mr. Jin") has been re-designated from an independent non-executive Director to an executive Director. Mr. Jin has been appointed to replace Ms. Liu Aihua ("Ms. Liu") as the Chief Executive Efficer of the Company with an effective date to be determined;

(2) Mr. Jin has resigned and Mr. Zhang Fuping ("Mr. Zhang") had been appointed as a member of the audit committee;

(3) Mr. Jin has resigned as a member of the nomination committee, Mr. Zhang has resigned as the chairman (but remained as a member) of the nomination committee and Ms. Zhang Lili has been appointed as a member and the chairman of the nomination committee; and

(4) Mr. Jin has resigned as the chairman (but remained as a member) of the remuneration committee, Ms. Wang Aihua has resigned as a member of the remuneration committee and Mr. Zhang has been appointed as a member and the chairman of the remuneration committee.

The following change took effect from 20 December 2013:

(1) Mr. Jin acted as, and Ms. Liu ceased to act as, the chief executive officer of the Company. Ms. Liu remained as an executive Director.

The following changes took effect from 28 February 2014:

(1) Upon the resignation of Mr. Zhang and Mr. Qin Bin ("Mr. Qin") as independent non-executive Directors, Mr. Zhang has resigned as a member of the audit committee and nomination committee and the chairman of the remuneration committee and Mr. Qin has resigned as the chairman of the Audit Committee and a member of the remuneration committee; and

(2) Mr. Hai Wen ("Mr. Hai") and Mr. Li Junhong ("Mr. Li") have been appointed as independent non-executive Directors. Mr. Hai has been appointed as a member of the audit committee and nomination committee and the chairman of the remuneration committee and Mr. Li has been appointed as the chairman of the audit committee and a member of the remuneration committee.

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.

All the independent non-executive Directors are delegated with the authority to review on an annual basis of the non-competition undertakings given by Ms. Zhao Yan in a deed of non-competition dated 3 September 2008 (an extract of the material terms of such undertakings had been set out in the prospectus of the Company dated 19 September 2008). Ms. Zhao confirmed that (a) she has provided all information necessary for the enforcement of her respective deed of non-competition as requested by the independent non-executive Directors from time to time; and (b) during the year ended 31 December 2013, she had complied with her non-competition undertaking. The independent non-executive Directors also confirmed that they were not aware of any non-compliance of the non-competition undertakings given by Ms. Zhao during the year ended 31 December 2013.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2013, the Group's sales to the largest and five largest customers accounted for approximately 11.5% and 25.5% respectively of the Group's turnover while the Group's purchase from the largest and five largest suppliers accounted for approximately 24.0% and 36.9% respectively of the Group's purchase.

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

CONNECTED TRANSACTION – ISSUE OF UNLISTED WARRANTS TO MR. JIN XUEKUN

On 29 October 2013, upon the re-designation of Mr. Jin Xuekun ("Mr. Jin") as an executive Director from an independent non-executive Director and the appointment of Mr. Jin as chief executive officer of the Company, the Company entered into the warrant subscription agreement (the "Warrant Subscription Agreement") with Wealthy Delight Group Limited (as Subscriber) and Mr. Jin (as guarantor of the Subscriber to guarantee the performance by the Subscriber of its obligations under the Warrant Subscription Agreement), pursuant to which the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for

16,600,000 warrants (the "Warrants") at the issue price of HK$0.01 per Warrant (the "Warrant Subscription"). Each of the Warrants carries the right to subscribe for one warrant share at the exercise price of HKD 16.652 per warrant share initially (subject to adjustment) during the period from the date of the first anniversary of the completion of the Warrant Subscription to the date before the fifth anniversary of the warrant completion in four equal installments.

The entire issued share capital of the Subscriber is legally and beneficially owned by Mr. Jin and Mr. Jin is a Director and thus each of the Subscriber and Mr. Jin is a connected person of the Company. Accordingly, the Warrant Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, subject to, among other things, reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Warrant Subscription was approved by the shareholders of the Company in an extraordinary general meeting held on 23 December 2013. The Warrant Subscription was completed on 27 December 2013. As at the date of this annual report, none of the Warrants have been exercised. For details of the Warrant Subscription, please refer to the announcements of the Company dated 29 October 2013, 23 December 2013 and 27 December 2013.

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 cap of RMB1,398,139 for the year ended 31 December 2012 and RMB2,308,524 for the year ended 31 December 2013. 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 Property Leasing Agreement.

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 leased 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.

As none of the applicable percentage ratios (other than the profits ratio) for the New Property Leasing Agreement in aggregate, on an annual basis, exceeds the 5% threshold under Rule 14A.34 of the Listing Rules, the New Property Leasing Agreement is only subject to the reporting, annual review and announcement requirements and is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

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

All independent non-executive Directors have reviewed the above continuing connected transactions and confirm that the transactions have been entered into:

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

(2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

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

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 for the above connected transactions in 2013 for each of the connected transactions was not within the respective cap amount as disclosed in the Company's announcements on 28 May 2012 and 18 January 2013.

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

On 17 September 2013, Bloomage Property and Beijing Bloomage Heng Mei Shang Mao Co., Ltd. (北京華熙恒美商貿有限公司) ("Bloomage Heng Mei") (an indirectly wholly-owned subsidiary of the Company) entered into a property leasing agreement (the "Heng Mei Leasing Agreement"), pursuant to which Bloomage Property agreed to lease certain properties located in Chaoyang District, Beijing, the PRC to Bloomage Heng Mei for a term of three years commencing from 1 October 2013 to 30 September 2016 at a monthly rental of RMB47,511. As Bloomage Property is ultimately owned as to approximately 98.02% by Ms. Zhao Yan, the controlling shareholder of the Company, the chairman of the Company and an executive Director, Bloomage Property is a connected person of the Company under the Listing Rules.

As none of the applicable percentage ratios for the Heng Mei Leasing Agreement exceeds 5% threshold under Rule 14A.34 of the Listing Rules, the annual consideration is less than HK$1,000,000 and the Heng Mei Leasing Agreement is entered into on normal commercial terms, the Heng Mei Leasing Agreement is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

For the year ended 31 December 2013, 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.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in Note 32 to the financial statements.

AUDITORS

The financial statements for the year ended 31 December 2013 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). A resolution for its re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Zhao Yan
Chairman

Hong Kong, 20 March 2014

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.

During the year ended 31 December 2013, the Company had complied with all the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details of the Company's corporate governance are summarized as below.

BOARD OF DIRECTORS

As at 31 December 2013, the Board comprises eight Directors including four executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors

Ms. Zhao Yan *(Chairman)*
Mr. Jin Xuekun *(re-designated from an independent non-executive Director to an executive Director on 29 October 2013 and appointed as Chief Executive Officer on 20 December 2013)*
Ms. Liu Aihua *(resigned as Chief Executive Officer on 20 December 2013)*
Ms. Wang Aihua

Non-executive Director

Mr. Guo Jiajun

Independent non-executive Directors

Ms. Zhan Lili
Mr. Zhang Fuping *(resigned on 28 February 2014)*
Mr. Qin Bin *(resigned on 28 February 2014)*
Mr. Hai Wen *(appointed on 28 February 2014)*
Mr. Li Junhong *(appointed on 28 February 2014)*

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 2013, there were three 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 D.3.1 of the 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 Code disclosures requirements.

Mr. Guo Jiajun is the vice general manager of Bloomage International. Save as disclosed above, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between Board members and between the Chairman and the Chief Executive Officer.

CHAIRMAN AND CHIEF EXECUTIVE

Ms. Zhao Yan serves as the Chairman and Mr. Jin Xuekun serves as the Chief Executive Officer since 20 December 2013. 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 Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. During the year ended 31 December 2013, the Board held eleven meetings and the individual attendance of the Directors at the board meetings is as follows:

	Attendance/ Meeting held
Ms. Zhao Yan *(Chairman)*	9/11
Mr. Jin Xuekun *(re-designated from an independent non-executive Director to an executive Director on 29 October 2013 and appointed as Chief Executive Officer on 20 December 2013)*	5/11
Ms. Liu Aihua *(resigned as Chief Executive Officer on 20 December 2013)*	7/11
Ms. Wang Aihua	11/11
Mr. Guo Jiajun	6/11
Ms. Zhan Lili	5/11
Mr. Zhang Fuping	5/11
Mr. Qin Bin	5/11

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 2013, 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 2013, the Company has also organized briefing sessions conducted by the legal advisers of the Company, Loong & Yeung as to Hong Kong laws for the Directors.

The briefing sessions covered topics including the 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 for the year ended 31 December 2013 is as follows:

	Attending seminar(s)/ conference(s) relevant to the business or directors' duties
Ms. Zhao Yan	√
Mr. Jin Xuekun *(re-designated from an independent non-executive Director to an executive Director on 29 October 2013)*	√
Ms. Liu Aihua	√
Ms. Wang Aihua	√
Mr. Guo Jiajun	√
Ms. Zhan Lili	√
Mr. Zhang Fuping	√
Mr. Qin Bin	√

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of Ms. Zhao Yan and Ms. Liu Aihua has entered into a service contract for a term commencing from 16 May 2013 to the 2014 annual general meeting to be convened in 2015. Mr. Jin Xuekun has entered into a service contract for a term commencing from 29 October 2013 to the 2015 annual general meeting to be convened in 2016. Ms. Wang Aihua has entered into a service contract for a term commencing from 16 May 2013 to the 2013 annual general meeting to be convened in 2014. Each of the executive Directors and the Company may terminate the appointment by giving the other party not less than three months' prior notice in writing. Mr. Guo Jiajun has entered into a service contract for a term commencing from 16 May 2013 to the 2013 annual general meeting to be convened in 2014. Ms. Zhan Lili has entered into a service contract for a term commencing from 16 May 2013 to the 2014 annual general meeting to be convened in 2015. Each of Mr. Hai Wen and Mr. Li Junhong has entered into a service contract for a term of one year commencing from 28 February 2014. 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.

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, Mr. Hai Wen and Mr. Li Junhong and pursuant to Article 87, Ms. Liu Aihua, Ms. Wang Aihua and Mr. Guo Jiajun will retire from office as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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 2013. 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. Li Junhong (appointed on 28 February 2014), Ms. Zhan Lili and Mr. Hai Wen (appointed on 28 February 2014). Mr. Li Junhong, who possesses rich financial management experience and relevant expertise, is the chairman of the Audit Committee.

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

During the year ended 31 December 2013, the Audit Committee has reviewed the Group's internal controls. The Group's annual report for the year ended 31 December 2013 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 2013, and performed the major works as below:

1. reviewed the annual financial results and report for the year ended 31 December 2012 and interim financial results and report for the six months ended 30 June 2013;
2. reviewed the internal audit department's report regarding the review 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) (resigned on 28 February 2014)*	2/2
Ms. Zhan Lili	2/2
Mr. Jin Xuekun *(resigned on 29 October 2013)*	2/2(Note 1)
Mr. Zhang Fuping *(appointed on 29 October 2013 and resigned on 28 February 2014)*	0/0(Note 2)

Notes:

(1) Mr. Jin attended two out of two Audit Committee meetings held during his tenure ended 29 October 2013.

(2) Mr. Zhang attended nil out of nil Audit Committee meeting held from 29 October 2013 to 31 December 2013.

AUDITORS' REMUNERATION

During the year ended 31 December 2013, 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	2013 *RMB'000*	2012 *RMB'000*
Non-audit services	**26**	16
Audit services	**1,000**	1,000
	1,026	1,016

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 Ms. Zhan Lili and Mr. Hai Wen. Ms. Zhan Lili is the chairman of the Nomination Committee.

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

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

The Nomination Committee held two meetings during the year ended 31 December 2013, 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 independence of all independent non-executive directors of the Company; and

3. reviewed and discussed the re-designation of Mr. Jin Xuekun from an independent non-executive Director to an executive Director and the appointment of Mr. Jin Xuekun as the chief executive officer of the Company and made recommendations to the Board in this regard.

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

	Attendance/ Meeting held
Ms. Zhan Lili *(Chairman) (appointed as Chairman on 29 October 2013)*	0/0 (Note1)
Mr. Zhang Fuping *(resigned on 28 February 2014)*	2/2
Mr. Jin Xuekun *(resigned on 29 October 2013)*	1/2 (Note2)
Ms. Liu Aihua	2/2

Notes:

(1) Ms. Zhan attended nil out of nil Nomination Committee meeting held from 29 October 2013 to 31 December 2013.

(2) Mr. Jin attended l out of 2 Nomination Committee meetings held during his tenure ended 29 October 2013. Mr. Jin was absent in the Nomination Committee meeting held on 29 October 2013 as a result of him having a material interest in the matters contemplated in the meeting.

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.

DIVERSITY OF THE BOARD

The Stock Exchange issued certain amendments to the Code contained in Appendix 14 to the Listing Rules in relation to diversity of the members of the Board, effective on 1 September 2013. The amended Code provides that the Nomination Committee shall fully take into account the formation of the Board and relevant principles regarding appointment, reelection and dismission set out in the Code when performing their duties. In achieving the diversity of the members of the Board, the Board may consider various factors such as gender, age, cultural and educational background or professional experience. The terms of reference of the Nomination Committee had been amended to take into account its responsibilities to monitor the implementation of policy in relation to the diversity of the members of the Board.

The Group has adopted policies in relation to the diversity of the members of the Board and the summary of those policies is as follows:

(1) selection of Board members will be based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service; and

(2) the Nomination Committee will monitor the implementation of the diversity policy from time to time to ensure the effectiveness of the diversity policy.

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 Mr. Jin Xuekun, an executive Director and two independent non-executive Directors, namely Mr. Hai Wen and Mr. Li Junhong. Mr. Hai Wen is the chairman of the Remuneration Committee.

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

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

The Remuneration Committee held three meetings during the year ended 31 December 2013, 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 and the terms of executive directors' service contracts 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. Zhang Fuping *(Chairman) (appointed on 29 October 2013 and resigned on 28 February 2014)*	0/0 (Note 1)
Mr. Jin Xuekun *(resigned as Chairman and remained as a member on 29 October 2013)*	1/2 (Note 2)
Mr. Qin Bin *(resigned on 28 February 2014)*	2/2
Ms. Wang Aihua (resigned on 29 October 2013)	2/2

Notes:

(1) Mr. Zhang attended nil out of nil Nomination Committee meeting held from 29 October 2013 to 31 December 2013.

(2) Mr. Jin attended I out of 2 Remuneration Committee meetings held during the year ended 31 December 2013. Mr. Jin was absent in the Remuneration Committee meeting held on 29 October 2013 as a result of him having a material interest in the matters contemplated in the meeting.

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 ended 31 December 2013.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2013. The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2013. 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

There were two general meetings held during 2013, including an annual general meeting held on 16 May 2013 and an extraordinary general meeting held on 23 December 2013. The attendance record of the Directors at the general meetings in 2013 were as follows:

Directors	**Attendance/ General Meetings held**
Ms. Zhao Yan *(Chairman)*	2/2
Mr. Jin Xuekun *(re-designated from an independent non-executive Director to an executive Director on 29 October 2013)*	2/2
Ms. Liu Aihua	2/2
Ms. Wang Aihua	2/2
Mr. Guo Jiajun	2/2
Ms. Zhan Lili	2/2
Mr. Zhang Fuping *(resigned on 28 February 2014)*	2/2
Mr. Qin Bin *(resigned on 28 February 2014)*	2/2

The Company's external auditor also attended the annual general meeting held on 16 May 2013.

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.

Shareholders may at any time lodge the aforesaid requisition or notice 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.

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 2013, there had been no significant change in the Company's constitutional documents.

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 49 to 129, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss and other 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 2013 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

20 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2013

	Note	2013 *RMB'000*	2012 *RMB'000*
Turnover	4	**375,180**	274,966
Cost of sales		**(75,321)**	(84,317)
Gross profit		**299,859**	190,649
Other revenue	5	**12,967**	8,650
Distribution costs		**(58,618)**	(33,154)
Administrative expenses		**(116,109)**	(44,099)
Other operating expenses		**(2,357)**	(1,198)
Profit from the operation		**135,742**	120,848
Finance costs	6(a)	**(9,983)**	(9,067)
Profit before taxation	6	**125,759**	111,781
Income tax	7(a)	**(31,362)**	(22,511)
Profit for the year		**94,397**	89,270
Other comprehensive income for the year (after tax adjustments):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(1,211)**	(169)
Total comprehensive income for the year		**93,186**	89,101
Profit attributable to:			
Equity shareholders of the Company		**94,398**	89,272
Non-controlling interests		**(1)**	(2)
Profit for the year		**94,397**	89,270
Total comprehensive income attributable to:			
Equity shareholders of the Company		**93,205**	89,111
Non-controlling interests		**(19)**	(10)
Total comprehensive income for the year		**93,186**	89,101
Earnings per share (RMB)			
Basic	11(a)	**0.294**	0.286
Diluted	11(b)	**0.282**	0.285

The notes on pages 56 to 129 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 28(b).

Consolidated Statement of Financial Position

at 31 December 2013

	Note	**2013** **RMB'000**	2012 RMB'000
Non-current assets			
Property, plant and equipment, net	12	**119,579**	123,066
Construction in progress	13	**146,197**	27,950
Intangible assets	14	**1,067**	862
Lease prepayments	15	**61,779**	63,088
Deferred tax assets	25(b)	**7,700**	—
Total non-current assets		**336,322**	214,966
Current assets			
Inventories	17	**42,518**	32,722
Trade and other receivables	18(a)	**87,037**	60,503
Available-for-sale financial assets	19	**97,000**	45,000
Restricted cash	20	**36,000**	255
Cash and cash equivalents	20	**169,429**	120,810
Total current assets		**431,984**	259,290
Current liabilities			
Secured bank loan	21	**36,000**	—
Trade and other payables	22	**58,730**	35,801
Current portion of preferred shares	23	**9,892**	9,159
Income tax payable	25(a)	**18,022**	3,709
Total current liabilities		**122,644**	48,669
Net current assets		**309,340**	210,621
Total assets less current liabilities		**645,662**	425,587
Non-current liabilities			
Deferred income	26	**36,570**	2,355
Deferred tax liabilities	25(b)	**—**	673
Preferred shares	23	**44,747**	45,589
Total non-current liabilities		**81,317**	48,617
NET ASSETS		**564,345**	376,970

The notes on pages 56 to 129 form part of these financial statements.

	Note	2013 RMB'000	2012 RMB'000
CAPTIAL AND RESERVES			
Share capital	28(c)	**2,961**	2,801
Reserves	28(d)	**561,325**	374,091
Total equity attributable to equity shareholders of the Company		**564,286**	376,892
Non-controlling interests		**59**	78
TOTAL EQUITY		**564,345**	376,970

Approved and authorised for issue by the board of directors on 20 March 2014.

Zhao Yan
Director

Jin Xuekun
Director

The notes on pages 56 to 129 form part of these financial statements.

Statement of Financial Position

at 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Investments in subsidiaries	16	**32,530**	33,549
Other receivables	18(b)	**43,582**	48,967
Total non-current assets		**76,112**	82,516
Current assets			
Other receivables	18(a)	**48**	279
Cash and cash equivalents	20	**41,010**	1,860
Total current assets		**41,058**	2,139
Current liabilities			
Amount due to a subsidiary	22	**1,353**	1,396
Accrued expenses and other payables	22	**496**	260
Total current liabilities		**1,849**	1,656
Net current assets		**39,209**	483
NET ASSETS		**115,321**	82,999
CAPTIAL AND RESERVES			
Share capital	28(a)	**2,961**	2,801
Reserves	28(a)	**112,360**	80,198
TOTAL EQUITY		**115,321**	82,999

Approved and authorised for issue by the board of directors on 20 March 2014.

Zhao Yan
Director

Jin Xuekun
Director

The notes on pages 56 to 129 form part of these financial statements.

for the year ended 31 December 2013

	Note	Attributable to equity shareholders of the Company									
		Share capital RMB'000	Share premium RMB'000 28(d)(i)	Statutory reserve RMB'000 28(d)(ii)	Warrant reserve RMB'000 28(d)(iii)	Exchange reserve RMB'000 28(d)(iv)	Other reserve RMB'000 28(d)(v)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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	24	—	—	—	—	—	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	28(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 56 to 129 form part of these financial statements.

Consolidated Statement of Changes In Equity *(continued)*

for the year ended 31 December 2013

	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									
			28(d)(i)	28(d)(ii)	28(d)(iii)	28(d)(iv)	28(d)(v)				
Balance at 1 January 2013		**2,801**	**50,187**	**33,450**	**246**	**(2,721)**	**21,392**	**271,537**	**376,892**	**78**	**376,970**
Changes in equity for 2013:											
Profit for the year		—	—	—	—	—	—	94,398	94,398	(1)	94,397
Other comprehensive income		—	—	—	—	(1,193)	—	—	(1,193)	(18)	(1,211)
Total comprehensive income for the year		—	—	—	—	(1,193)	—	94,398	93,205	(19)	93,186
Equity settled share-based transactions	24	—	—	—	—	—	57,285	—	57,285	—	57,285
Appropriation to statutory reserve		—	—	10,997	—	—	—	(10,997)	—	—	—
Shares issued on the exercise of warrants	27	160	42,033	—	(246)	—	—	—	41,947	—	41,947
Dividends for the year ended 31 December 2012	28(b)	—	—	—	—	—	—	(5,043)	(5,043)	—	(5,043)
		160	42,033	10,997	(246)	—	57,285	(16,040)	94,189	—	94,189
Balance at 31 December 2013		**2,961**	**92,220**	**44,447**	**—**	**(3,914)**	**78,677**	**349,895**	**564,286**	**59**	**564,345**

The notes on pages 56 to 129 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
Operating activities			
Cash generated from operations	20(b)	**179,943**	103,481
PRC income tax paid		**(25,422)**	(20,311)
Interest received on cash at bank		**806**	448
Net cash generated from operating activities		**155,327**	83,618
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress and intangible assets		**(114,127)**	(46,528)
Government grants received		**30,800**	—
Proceeds from disposal of property, plant and equipment		**26**	54
Payments for purchase of land use right		**—**	(51,946)
Net acquisition of available-for-sale financial assets		**(52,000)**	(45,000)
Increase in restricted cash		**(35,745)**	—
Investment income received from available-for-sale financial assets		**3,404**	3,161
Net cash used in investing activities		**(167,642)**	(140,259)
Financing activities			
Proceeds from exercise of warrants		**41,947**	—
Proceeds from bank loan		**36,000**	—
Proceeds upon issue of warrants, net of transaction costs		—	246
Interest paid on bank loan		**(933)**	—
Dividends paid on preferred shares		**(9,159)**	(8,480)
Dividends paid to equity shareholders of the Company		**(5,043)**	(2,789)
Net cash generated from/(used in) financing activities		**62,812**	(11,023)
Net increase/(decrease) in cash and cash equivalents		**50,497**	(67,664)
Cash and cash equivalents at 1 January		**120,810**	188,810
Effect of foreign exchange rate changes		**(1,878)**	(336)
Cash and cash equivalents at 31 December	20(a)	**169,429**	120,810

The notes on pages 56 to 129 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 subsidiaries, Bloomage Freda Biopharmaceutical Co., Ltd. ("Bloomage Biopharm") and Beijing Bloomage Hyinc Technology Company Limited ("Beijing Bloomage Hyinc"), were established in the People's Republic of China (the "PRC") principally engaging in the manufacture and sale of bio-chemical products (including hyaluronic acid ("HA") raw materials and end products). The consolidated financial statements of the Company for the year ended 31 December 2013 comprise the Company and its subsidiaries (collectively referred to as the "Group").

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 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)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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 and Beijing Bloomage Hyinc, the Company's principal subsidiaries operating in the PRC. The Company's functional currency is Hong Kong dollar ("HKD").

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and 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 IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*
- *Annual Improvements to IFRSs 2009 – 2011 Cycle*
- Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of new or amended IFRSs are discussed below:

Amendments to IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new title "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in Note 16.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in Note 29. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to IFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

The adoption of the amendments does not have an impact on these financial statements because the Group has not made any retrospective application of accounting policy, retrospective restatement nor reclassification that has a material effect on the information presented in the opening statement of financial position.

Amendments to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7 during the periods presented.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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, transactions and cash flows 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.

Non-controlling interests are presented in the consolidated statement of financial position 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 profit or loss and other 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 statement of financial position, 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 the end of each reporting period 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 statement of financial position 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

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

Other 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)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets *(continued)*

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.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Leased assets *(continued)*

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments (see Note 15) 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 the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

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

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

— 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 the end of each reporting period 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;

— lease prepayments; and

— investments in subsidiaries in the Company's statement of financial position.

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 (if measurable), 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 Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(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, or other reserve when this is related to share-based payments to directors and employees (see Note 2(q)(ii)). 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 and warrants (net of net proceeds received from the issues of share options and warrants) granted to directors and 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 and warrants were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options and warrants, the total estimated fair value of the options and warrants is spread over the vesting period, taking into account the probability that the options and warrants will vest.

During the vesting period, the number of share options and warrants 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 and warrants 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 options and warrants are exercised (when it is transferred to the share premium account) or the options and warrants expire (when it is released directly to retained earnings).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

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 end of the reporting period, 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 end of reporting period. 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 the end of each reporting period 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 statement of financial position 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, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

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

(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 end of the reporting period. 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. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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 24 contains information about the assumptions and their risk factors relating to fair value of share options and warrants 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 fair value less cost to sell 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 the account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(d) Withholding tax

Withholding tax is recognised on profits of Bloomage Biopharm and other PRC established subsidiaries which are to be distributed to their overseas holding companies in the foreseeable future. Note 25(c) 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 end of the reporting period.

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.

	2013	2012
	RMB'000	*RMB'000*
HA raw materials	**286,634**	265,247
HA end products	**86,759**	8,816
Others	**1,787**	903
	375,180	274,966

The Group's customer base is diversified and includes only one customer (2012: two customers) with whom transactions have exceeded 10% of the Group's revenues. In 2013, revenues from sales of bio-chemical products to this customer (2012: the two customers), including sales to entities which are known to the Group to be under common control with this customer (2012: the two customers) amounted to approximately RMB 43,012,000 (2012: RMB 72,026,000) and arose in both domestic sales and overseas sales. Details of concentration of credit risk arising from the largest customer and the five largest customers are set out in Note 29(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 2013, 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 2013 and the reconciliation of reportable segment revenues and profit or loss are set out below.

	Year ended 31 December 2013				
	Domestic	**Overseas**			**Total**
		Asia	**Americas**	**Others**	
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
HA raw materials and others	**198,367**	**43,209**	**31,643**	**15,202**	**288,421**
HA end products	**86,759**	**—**	**—**	**—**	**86,759**
Turnover	**285,126**	**43,209**	**31,643**	**15,202**	**375,180**
Segment results	**239,691**	**28,371**	**19,072**	**9,293**	**296,427**
Unallocated income and expenses					**(160,685)**
Profit from operations					**135,742**
Finance costs					**(9,983)**
Income tax					**(31,362)**
Profit for the year					**94,397**

	Year ended 31 December 2012				
	Domestic	Overseas			Total
		Asia	Americas	Others	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
HA raw materials and others	178,068	41,604	33,930	12,548	266,150
HA end products	8,816	—	—	—	8,816
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

5 OTHER REVENUE

	Note	2013 RMB'000	2012 RMB'000
Government grants	(a)	**6,002**	2,025
Interest income on cash at bank		**806**	448
Investment income on available-for-sale financial assets		**3,404**	3,161
Rental income		**2,381**	2,867
Others		**374**	149
		12,967	8,650

(a) Government grants

The grants represented awards of RMB 3,997,000 received in the year ended 31 December 2013 in relation to the Group's technical achievement on the research and development of HA products and incentives of RMB 2,005,000 received by the Group in relation to its expansion of business to overseas markets, environmental protection achievement on sewage treatment and development of intellectual property (2012: an award of RMB 1,766,000 received in relation to the technical achievement on the research and development of HA products accomplished by Bloomage Biopharm and an incentive of RMB 259,000 received by Bloomage Biopharm in relation to its expansion of business to overseas markets).

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

	2013	2012
	RMB'000	*RMB'000*
Interest on bank loan	**933**	—
Dividends on preferred shares (Note 23)	**9,050**	9,067
	9,983	9,067

(b) Staff costs

		2013	2012
	Note	***RMB'000***	*RMB'000*
Salaries, wages and other benefits		**51,203**	34,004
Contributions to defined contribution retirement plan		**4,450**	2,720
Equity-settled share-based payment expenses	(i)		
– share option scheme (Note 24(i))		**10,463**	182
– warrants granted to a director (Note 24(ii))		**46,822**	—
		112,938	36,906

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% (2012: 19%~20%) 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 is stationed in Hong Kong participates in the Mandatory Provident Fund Scheme ("MPF Scheme"), whereby the Company is required to contribute to the MPF 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.

(i) The equity-settled share-based payment expenses are recorded as staff costs in the administrative expenses. The increase of administrative expenses is mainly contributed by the significant increase of equity-settled share-based payment expenses in the year ended 31 December 2013.

6 PROFIT BEFORE TAXATION *(continued)*

(c) Other items

	Note	2013 RMB'000	2012 RMB'000
Amortisation			
– intangible assets		**143**	95
– lease prepayments		**1,309**	443
Auditors' remuneration		**1,026**	1,016
Depreciation		**12,619**	10,289
Net foreign exchange loss		**1,282**	493
Net loss/(gain) on disposal of property, plant and equipment		**34**	(7)
Rental income		**(2,381)**	(2,867)
Operating lease charges in respect of leased property, plant and equipment		**6,841**	1,398
Cost of inventories	(i)	**75,321**	84,317
Research and development costs	(ii)	**15,153**	9,713

(i) Cost of inventories for the year ended 31 December 2013 included RMB 25,810,000 (2012: RMB 18,676,000) 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.

(ii) Research and development costs for the year ended 31 December 2013 included RMB 7,709,000 (2012: RMB 6,510,000) 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 profit or loss and other comprehensive income represents:

	2013 RMB'000	2012 RMB'000
Current tax - PRC income tax		
Provision for the year (Note 25(a))	**39,919**	22,367
(Over)/under-provision in respect of prior year (Note 25(a))	**(184)**	18
Deferred tax		
Origination and reversal of temporary differences (Note 25(b))	**(8,373)**	126
	31,362	22,511

7 INCOME TAX *(continued)*

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

	Note	2013 RMB'000	2012 RMB'000
Profit before taxation		**125,759**	111,781
Expected tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	(i) and (v)	**46,475**	28,937
Tax effect of tax concession	(ii)	**(18,822)**	(12,229)
Tax effect of non-deductible expenses	(iii)	**3,138**	2,391
Tax effect of unused tax losses not recognized (Note 25(d))		**98**	1,368
Effect of withholding tax on the distributable profit of Bloomage Biopharm (Note 25(b))	(iv)	**1,227**	2,026
Utilisation of previous years' unrecognised tax losses		**(570)**	—
(Over)/under-provision in respect of prior year		**(184)**	18
Income tax		**31,362**	22,511

(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 2013 is 15% (2012:15%).

(iii) The non-deductible expenses primarily represent dividends on the preferred shares and entertainment expenses in excess of allowable limit.

(iv) Pursuant to the PRC income tax law, 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 dividend 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, 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.

(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 ended 31 December 2013.

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2013						
	Fees	Basic salaries, allowances and other benefits in kind	Discretionary bonuses	Contributions to retirement benefit schemes	Subtotal	Equity-settled share-based payments *(note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman							
Zhao Yan	120	–	–	–	120	–	120
Executive directors							
Jin Xuekun (appointed as executive director on 29 October 2013)	87	655	–	–	742	47,071	47,813
Liu Aihua	160	394	420	22	996	1,694	2,690
Wang Aihua	160	359	71	32	622	526	1,148
Non-executive directors							
Guo Jiajun	80	–	–	–	80	542	622
Independent non-executive directors							
Jin Xuekun (resigned as independent non-executive director on 29 October 2013)	264	–	–	–	264	198	462
Qin Bin (resigned on 28 February 2014)	64	–	–	–	64	–	64
Zhan Lili	64	–	–	–	64	–	64
Zhang Fuping (resigned on 28 February 2014)	64	–	–	–	64	–	64
Hai Wen (appointed on 28 February 2014)	–	–	–	–	–	–	–
Li Junhong (appointed on 28 February 2014)	–	–	–	–	–	–	–
	1,063	1,408	491	54	3,016	50,031	53,047

8 DIRECTORS' REMUNERATION *(continued)*

	2012						
	Fees	Basic salaries, allowances and other benefits in kind	Discretionary bonuses	Contributions to retirement benefit schemes	Subtotal	- Equity settled share-based payments *(note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman							
Zhao Yan	122	—	—	—	122	—	122
Executive directors							
Liu Aihua (appointed on 18 June 2012)	87	404	420	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	538	420	20	1,838	57	1,895

Note:

These represent the estimated value of share options and warrants granted to the directors. The value of these share options and warrants granted to directors is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(q)(ii).

The details of these benefits in kind, including the principal terms and number of options and warrants granted, are disclosed in Note 24.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year, three of them (2012: one) are directors of the Company whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other two (2012: four) individuals of the Group are as follows:

	2013	2012
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	**632**	1,266
Bonus	**750**	980
Contributions to retirement benefit schemes	**44**	92
Equity settled share-based transaction expenses	**2,267**	53
	3,693	2,391

The emoluments of the two (2012: four) individuals with the highest emoluments are within the following bands:

	2013	2012
HKD Nil ~ HKD 1,000,000	**—**	4
HKD 1,500,001 ~ HKD 2,000,000	**1**	—
HKD 3,000,001 ~ HKD 3,500,000	**1**	—

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB 59,243,000 (2012: RMB 2,415,000) which has been dealt with in the financial statements of the Company.

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

	2013	2012
	RMB'000	*RMB'000*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(59,243)**	(2,415)
Final dividends from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**—**	4,865
Company's (loss)/profit for the year (Note 28(a))	**(59,243)**	2,450

Details of dividends paid and payable to equity shareholders of the Company are set out in Note 28(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 2013 of RMB 94,398,000 (2012: RMB 89,272,000) and the ordinary shares in issue during the year ended 31 December 2013 of 321,027,000 shares (2012: 312,000,000 ordinary shares), calculated as follows:

(i) Weighted average number of ordinary shares (basic)

	2013	2012
	'000	*'000*
Issued ordinary shares at 1 January	**312,000**	312,000
Effect of exercise of unlisted warrants (Note 27)	**9,027**	—
Weighted average number of ordinary shares (basic) at 31 December	**321,027**	312,000

(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 94,398,000 (2012: RMB 89,272,000) and the weighted average number of ordinary shares of 334,933,000 shares (2012: 313,839,000 ordinary shares), calculated as follows:

(i) Weighted average number of ordinary shares (diluted)

	2013	2012
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**321,027**	312,000
Effect of deemed issue of shares under the Company's share option scheme and for warrants granted to a director for nil consideration (Note 24)	**6,915**	—
Effect of exercise of unlisted warrants (Note 27)	**6,991**	1,839
Weighted average number of ordinary shares (diluted) at 31 December	**334,933**	313,839

12 PROPERTY, PLANT AND EQUIPMENT, NET

	The Group				
	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 1 January 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
At 1 January 2013	**75,236**	**88,448**	**3,483**	**4,732**	**171,899**
Additions	**—**	**192**	**418**	**819**	**1,429**
Transferred from construction in progress (Note 13)	**4,623**	**1,840**	**—**	**1,300**	**7,763**
Disposals	**—**	**(44)**	**(164)**	**(199)**	**(407)**
At 31 December 2013	**79,859**	**90,436**	**3,737**	**6,652**	**180,684**
Accumulated depreciation:					
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
At 1 January 2013	**17,532**	**27,267**	**1,356**	**2,678**	**48,833**
Charge for the year	**3,607**	**7,628**	**544**	**840**	**12,619**
Written back on disposal	**—**	**(39)**	**(148)**	**(160)**	**(347)**
At 31 December 2013	**21,139**	**34,856**	**1,752**	**3,358**	**61,105**
Net book value:					
At 31 December 2012	57,704	61,181	2,127	2,054	123,066
At 31 December 2013	**58,720**	**55,580**	**1,985**	**3,294**	**119,579**

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 2013, property certificates of certain properties of the Group with an aggregate net book value of RMB 6,462,000 (31 December 2012: RMB 385,000) 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 31(a)) under operating leases. The leases run for a period of one year. None of the leases includes contingent rentals. The Directors consider that these leases are temporary and the Group has the plan to occupy the leased portion of the buildings and plant as factories for the production of HA products or administrative offices in the short run. Accordingly, the leased portion of the buildings and plant has been accounted for as property, plant and equipment in the consolidated financial statements.

13 CONSTRUCTION IN PROGRESS

	The Group	
	2013	2012
	RMB'000	*RMB'000*
At 1 January	**27,950**	6,672
Additions	**126,010**	43,836
Transferred to property, plant and equipment (Note 12)	**(7,763)**	(22,558)
At 31 December	**146,197**	27,950

14 INTANGIBLE ASSETS

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Cost:		
At 1 January	**1,385**	1,114
Additions	**348**	271
At 31 December	**1,733**	1,385
Accumulated amortisation:		
At 1 January	**523**	428
Charge for the year	**143**	95
At 31 December	**666**	523
Net book value:		
At 31 December	**1,067**	862

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

15 LEASE PREPAYMENTS

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Cost:		
At 1 January	**65,443**	13,497
Additions	**—**	51,946
At 31 December	**65,443**	65,443
Accumulated amortisation:		
At 1 January	**2,355**	1,912
Charge for the year	**1,309**	443
At 31 December	**3,664**	2,355
Net book value:		
At 31 December	**61,779**	63,088

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	
	2013	2012
	RMB'000	*RMB'000*
Unlisted shares, at cost	**32,530**	33,549

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Details of the subsidiaries at 31 December 2013 are set out below:

Name of company	Place of incorporation/ establishment and business	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")	United States Dollars ("USD") 1/ USD 50,000	100%	—	Investment holding
Farstar Enterprises Limited ("Farstar")	BVI	USD 100/ USD 50,000	100%	—	Investment holding
Tactful	Hong Kong	HKD 1/ HKD 10,000	—	100%	Investment holding
Fumax Investment Limited	Hong Kong	HKD 1/ HKD 10,000	—	100%	Investment holding
Bloomage Biopharm (Note i)	PRC	RMB 88,800,000/ RMB 88,800,000	—	100%	Production and sales of bio-chemical products
Plumoon Company Limited	Japan	Japanese Yen ("JPY") 12,000,000/ JPY 12,000,000	—	91%	Sales of HA end products
Beijing Bloomage Hyinc Technology Company Limited*	PRC	RMB 20,000,000/ RMB 20,000,000	—	100%	Sales of bio-chemical products and medical devices
Shandong Bloomage Hyinc Biopharm Company Limited*	PRC	RMB 200,000,000/ RMB 200,000,000	—	100%	Production and development of bio-chemical products
Bloomage Freda Biopharm USA Inc.	United States	USD 2,000/ USD 2,000	—	100%	Development, distribution and sales of bio-chemical products and medical devices
Beijing Bloomage Heng Mei Shang Mao Co., Ltd**	PRC	RMB 1,000,000/ RMB 1,000,000	—	100%	Sales of beauty products

* Wholly foreign owned enterprises established under the PRC law.

** Limited liability company 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 23), and accordingly, the Group effectively held 100% equity interest in Bloomage Biopharm.

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Raw materials and consumables	**6,414**	5,077
Work in progress	**5,736**	3,621
Finished goods	**30,368**	24,024
	42,518	32,722

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

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**75,321**	84,317

18 TRADE AND OTHER RECEIVABLES

(a) Current trade and other receivables

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables from:				
– Third parties	**54,665**	33,178	**—**	—
– Related parties	**—**	51	**—**	—
Bills receivable	**19,391**	18,209	**—**	—
Prepayments and other receivables from:				
– Third parties	**10,797**	6,109	**48**	279
– Related parties	**2,184**	2,956	**—**	—
	87,037	60,503	**48**	279

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

(i) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier), is as follow:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**57,909**	35,829
3 to 6 months	**11,356**	14,679
6 to 9 months	**4,715**	659
Over 9 months	**76**	271
	74,056	51,438

18 TRADE AND OTHER RECEIVABLES *(continued)*

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

(ii) Trade receivables and bills receivable that are not impaired

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

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Current	**65,448**	46,720
1 to 3 months overdue	**7,542**	3,788
3 to 6 months overdue	**1,066**	659
6 months to 1 year overdue	**—**	271
	74,056	51,438

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 29(a).

As at 31 December 2013, the Group has no impairment losses on trade and other receivables (31 December 2012: 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 any 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

As at 31 December 2013, these represent the Group's investment in principal-guaranteed banking products which have maturity periods less than 3 months or can be redeemed on demand. These banking products 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	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**205,429**	121,065	**41,010**	1,860
Less: restricted cash (i)	**36,000**	255	**—**	—
Cash and cash equivalents	**169,429**	120,810	**41,010**	1,860

(i) At 31 December 2013, restricted cash represents time deposit placed with a bank that is secured for obtaining a bank loan by the Group (see Note 21) (at 31 December 2012: restricted cash represented 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:

	2013	2012
	RMB'000	*RMB'000*
Profit before taxation	**125,759**	111,781
Adjustments for:		
Amortisation of intangible assets	**143**	95
Amortisation of lease prepayments	**1,309**	443
Depreciation	**12,619**	10,289
Dividends on preferred shares	**9,050**	9,067
Equity settled share-based payment expenses (Note 24)	**57,285**	182
Interest income on cash at bank	**(806)**	(448)
Investment income on available-for-sale financial assets	**(3,404)**	(3,161)
Net loss/(gain) on disposal of property, plant and equipment	**34**	(7)
Interest on bank loan	**933**	—
Changes in working capital:		
Increase in inventories	**(9,796)**	(2,306)
Increase in trade and other receivables	**(25,923)**	(23,927)
Increase in trade and other payables	**12,740**	1,473
Cash generated from operations	**179,943**	103,481

21 SECURED BANK LOAN

At 31 December 2013, the secured bank loan represents a revolving bank loan for financing the working capital of the Group which is repayable on demand. The bank loan bears an interest rate of Hong Kong Interbank Offered Rate plus 1% and is secured by a charge over the Group's time deposit of RMB 36,000,000 (see Note 20).

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**8,751**	12,515	**—**	—
Payables for construction of plant and purchase of equipment	**37,136**	6,298	**—**	—
Receipts in advance	**759**	2,309	**—**	—
Value added tax payable	**4,848**	223	**—**	—
Other payables due to related parties	**34**	596	**—**	—
Amounts due to a subsidiary	**—**	—	**1,353**	1,396
Accrued expenses and other payables	**7,202**	13,860	**496**	260
	58,730	35,801	**1,849**	1,656

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

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**8,621**	12,374
3 to 6 months	**130**	141
	8,751	12,515

22 TRADE AND OTHER PAYABLES *(continued)*

The maturity analysis of trade payables is as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Due within 1 month or on demand	**8,751**	12,515

23 PREFERRED SHARES

	The Group	
	2013	2012
	RMB'000	*RMB'000*
At 1 January	**54,748**	54,161
Dividends during the year	**9,050**	9,067
Payment of dividends of preferred shares	**(9,159)**	(8,480)
	54,639	54,748
Less: current portion of preferred shares	**(9,892)**	(9,159)
	44,747	45,589

23 PREFERRED SHARES *(continued)*

In connection with the Transformation, Valuerank and Farstar acquired the rights to the 25% equity interest in Bloomage Biopharm from Shandong Freda Pharmaceutical Group (山東福瑞達醫藥集團公司, "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 profit or loss and other 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.

23 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	
	2013	2012
	RMB'000	*RMB'000*
Within 1 year	**9,892**	9,159
After 1 year but within 5 years	**30,708**	28,434
After 5 years	**14,039**	17,155
	54,639	54,748

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.

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(i) Share option scheme

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 HKD 1.0 to subscribe for shares of the Company.

For the options granted in 2012, 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.

For the options granted in 2013, subject to the satisfaction of certain performance conditions, 25% of the options vest after one year from the date of grant and are then exercisable within a period of four years, 25% of the options vest after two years from the date of grant and are then exercisable within a period of three years, 25% of the options vest after three years from the date of grant and are then exercisable within a period of two years and the remaining 25% of the options vest after four years from the date of grant and are then exercisable within a period of one year.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

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

(i) Share option scheme *(continued)*

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

	Number of options	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
– on 23 December 2013 (being the date on which the grant of options became unconditional) ("Grant Date")	1,660,000	One year from the Grant Date and turnover of the Group for the year ended 31 December 2013 is not less than 130% of that for the year ended 31 December 2012 ("FY 2012")	5 years
– on 23 December 2013 (Grant Date)	1,660,000	Two years from the Grant Date and turnover of the Group for the year ending 31 December 2014 is not less than 169% of that for FY 2012	5 years
– on 23 December 2013 (Grant Date)	1,660,000	Three years from the Grant Date and turnover of the Group for the year ending 31 December 2015 is not less than 211.25% of that for FY 2012	5 years
– on 23 December 2013 (Grant Date)	1,660,000	Four years from the Grant Date and turnover of the Group for the year ending 31 December 2016 is not less than 264.0625% of that for FY 2012	5 years

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

(i) Share option scheme *(continued)*

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

	Number of options	Vesting conditions	Contractual life of options
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
– on 29 October 2013	830,000	One year from the date of grant and turnover of the Group for the year ended 31 December 2013 is not less than 130% of that for FY 2012	5 years
– on 29 October 2013	830,000	Two years from the date of grant and turnover of the Group for the year ending 31 December 2014 is not less than 169% of that for FY 2012	5 years
– on 29 October 2013	830,000	Three years from the date of grant and turnover of the Group for the year ending 31 December 2015 is not less than 211.25% of that for FY 2012	5 years
– on 29 October 2013	830,000	Four years from the date of grant and turnover of the Group for the year ending 31 December 2016 is not less than 264.0625% of that for FY 2012	5 years
Total share options granted	22,440,000		

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

(i) Share option scheme *(continued)*

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

	2013		2012	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HKD 4.422**	**12,480,000**	—	—
Granted during the year	**HKD 16.652**	**9,960,000**	HKD 4.422	12,480,000
Outstanding at the end of the year	**HKD 9.85**	**22,440,000**	HKD 4.422	12,480,000
Exercisable at the end of the year	**HKD 4.422**	**6,240,000**	—	—

The options outstanding at 31 December 2013 had an exercise price of HKD 4.422 or HKD 16.652 (2012: HKD 4.422) and a weighted average remaining contractual life of 4.4 years (2012: 4.98 years).

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

(i) Share option scheme *(continued)*

(c) 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.

	2013	2012
Fair value at measurement date	**HKD 2.51 to 3.79**	HKD 1.30 to 1.37
Share price	**HKD 15.80 and 17.22**	HKD 4.3
Exercise price	**HKD 16.652**	HKD 4.422
Expected volatility	**32.5%**	55%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	**3 to 4.5 years**	3.25 years
Expected dividends	**3%**	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	**0.446% to 1.153%**	0.108% and 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 service condition and non-market performance condition. These conditions have not been taken into account in the fair value measurement of the services received at the date of grant . There were no market conditions associated with the share option grants.

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

(ii) Warrants granted to a director

On 29 October 2013, upon the re-designation of Mr. Jin Xuekun ("Mr. Jin") as an executive director from an independent non-executive director and the appointment of Mr. Jin as chief executive officer of the Company, the Company entered into the warrant subscription agreement (the "Warrant Subscription Agreement") with Wealthy Delight Group Limited (as Subscriber), a company the entire issued share capital of which is legally and beneficially owned by Mr. Jin, and Mr. Jin (as guarantor of the Subscriber to guarantee the performance by the Subscriber of its obligations under the Warrant Subscription Agreement), pursuant to which the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for 16,600,000 warrants (the "Warrants") at the issue price of HK$0.01 per Warrant (the "Warrant Subscription"). Each of the Warrants carries the right to subscribe for one warrant share at the exercise price of HKD 16.652 per warrant share initially (subject to adjustment) during the period from the date of the first anniversary of the completion of the Warrant Subscription to the date before the fifth anniversary of the warrant completion date in four equal installments.

On 23 December 2013, the shareholders of the Company approved the Warrant Subscription in an extraordinary general meeting. As there were no explicit or implicit vesting conditions attached to the Warrants, the Warrants were treated as granted and vested on 23 December 2013 and relevant share-based payment expenses of the Warrants granted were charged to profit or loss immediately.

Relevant details of the Warrants are listed below.

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

Date of grant	Number of instruments	Vesting conditions	Exercisable period	Contractual life of warrants
23 December 2013	4,150,000	None	From 27 December 2014 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2015 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2016 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2017 to 26 December 2018	5 years
	16,600,000			

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

(ii) Warrants granted to a director *(continued)*

(b) The number and weighted average exercise prices of the Warrants are as follows::

	2013	
	Weighted average exercise price	Number of warrants
Outstanding at the beginning of the year	**—**	—
Granted during the year	**HKD 16.652**	16,600,000
Outstanding at the end of the year	**HKD 16.652**	16,600,000
Exercisable at the end of the year	**—**	—

The Warrants outstanding as at 31 December 2013 had an exercise price of HKD 16.652 (2012: not applicable) and a weighted average remaining contractual life of 5 years (2012: not applicable).

(c) Fair value of Warrants and assumptions

The fair value of services received in return for the Warrants granted is measured by reference to the fair value of the Warrants. The estimate of the fair value of the Warrants is measured based on the Black-Scholes Model. The contractual life of the Warrants is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes Model.

	2013
Fair value at measurement date	HKD 3.26 to 3.79
Share price	HKD 17.22
Exercise price	HKD 16.652
Expected volatility	32.5%
Warrant life (expressed as weighted average life used in the modelling under Black-Scholes Model)	3 to 4.5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.635% to 1.153%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the Warrants), 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.

There were no service or performance conditions associated with the Warrants.

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Balance of PRC income tax relating to prior years	**3,709**	1,635
Provision for PRC income tax for the year (Note 7(a))	**39,919**	22,367
(Over)/under-provision in respect of prior year	**(184)**	18
PRC income tax paid	**(25,422)**	(20,311)
	18,022	3,709

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	**Government grants**	**Withholding tax**	**Total**
At 1 January 2012	—	(547)	(547)
Charged to profit or loss	—	(126)	(126)
At 31 December 2012	—	(673)	(673)
At 1 January 2013	**—**	**(673)**	**(673)**
Credited to profit or loss	**7,700**	**673**	**8,373**
At 31 December 2013	**7,700**	**—**	**7,700**

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised: *(continued)*

Reconciliation to the consolidated statement of financial position

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Deferred tax assets recognised in the consolidated statement of financial position	**7,700**	—
Deferred tax liabilities recognised in the consolidated statement of financial position	**—**	(673)
	7,700	(673)

Deferred tax liabilities as at 31 December 2012 relating to the withholding tax as described in Note 7(b)(iv) are provided at the rate of 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.

(c) Deferred tax liabilities not recognised:

As at 31 December 2013, temporary differences relating to the undistributed profits of Bloomage Biopharm amounted to RMB 208,689,000 (31 December 2012: RMB 76,291,000). Deferred tax liabilities of RMB 10,434,000 (31 December 2012: RMB 3,845,000) 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.

(d) 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 3,869,000 (31 December 2012: RMB 5,757,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses will expire on or before 31 December 2018.

26 DEFERRED INCOME

Deferred income represented unrecognised government grants received to compensate the Group's cost of construction in respect of the HA production facilities which will subsequently be deducted from the carrying amount of assets, and unfulfilled conditional government grants received to compensate the Group for expenses incurred which will subsequently be recognised as revenue in profit or loss in the same periods in which the expenses are incurred.

27 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 2013, the registered holder of the warrants, Perfect Good Investment Limited, has exercised 20,000,000 warrants (the year ended 31 December 2012: Nil), and accordingly, 20,000,000 ordinary shares of HKD 0.01 each were issued at HKD 2.65 per share. Of the proceeds of HKD 53,000,000, HKD 200,000 representing the par value, have been credited to share capital, and the remaining proceeds of HKD 52,800,000 have been credited to the share premium account. RMB 246,000 has been transferred from the warrant reserve to the share premium account in accordance with the Group's accounting policy (see Note 2(o)).

For details of warrants granted to a director that has been accounted for as equity-settled share-based transaction, please refer to Note 24(ii).

28 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company	Share capital *RMB'000* 28(c)	Share premium *RMB'000* 28(d)(i)	Contributed surplus *RMB'000* (i) below	Warrant reserve *RMB'000* 27,28(d)(iii)	Exchange reserve *RMB'000* 28(d)(iv)	Other reserve *RMB'000* 28(d)(v)	Retained earnings/ (accumulated loss) *RMB'000*	Total *RMB'000*
Balance at 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 and 1 January 2013	**2,801**	**50,187**	**36,966**	**246**	**(7,573)**	**182**	**190**	**82,999**
Changes in equity for 2013:								
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(59,243)**	**(59,243)**
Other comprehensive income	**–**	**–**	**–**	**–**	**(2,624)**	**–**	**–**	**(2,624)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(2,624)**	**–**	**(59,243)**	**(61,867)**
Equity settled share-based transactions	**–**	**–**	**–**	**–**	**–**	**57,285**	**–**	**57,285**
Share issued on the exercise of warrants	**160**	**42,033**	**–**	**(246)**	**–**	**–**	**–**	**41,947**
Dividends for the year ended 31 December 2012	**–**	**–**	**–**	**–**	**–**	**–**	**(5,043)**	**(5,043)**
Balance at 31 December 2013	**2,961**	**92,220**	**36,966**	**–**	**(10,197)**	**57,467**	**(64,096)**	**115,321**

28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(a) Movements in components of equity *(continued)*

(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.

(b) Dividends

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

	2013	2012
	RMB'000	*RMB'000*
Final dividends proposed after the end of the reporting period of HKD 1.9 cents per ordinary share (2012: HKD 2.0 cents per ordinary share)	**4,960**	5,043

The final dividends proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2013	2012
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of HKD 2.0 cents per ordinary share (2012: HKD 1.1 cents per ordinary share)	**5,043**	2,789

28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital

(i) Authorised and issued share capital

	2013		2012	
	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

	2013		2012	
	No. of shares	***RMB'000***	*No. of shares*	*RMB'000*
Issued and fully paid:				
At 1 January	**312,000,000**	**2,801**	312,000,000	2,801
Shares issued on exercise of warrants (Note 27)	**20,000,000**	**160**	—	—
At 31 December	**332,000,000**	**2,961**	312,000,000	2,801

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

(ii) Terms of unexpired and unexercised share options and warrants at the end of the reporting period:

Exercise period	Exercise price	2013 Number of options/ warrants	2012 Number of options/ warrants
25 December 2013 to 24 December 2017	HKD 4.422	6,240,000	6,240,000
25 December 2014 to 24 December 2017	HKD 4.422	6,240,000	6,240,000
30 October 2014 to 29 October 2018	HKD 16.652	830,000	—
30 October 2015 to 29 October 2018	HKD 16.652	830,000	—
30 October 2016 to 29 October 2018	HKD 16.652	830,000	—
30 October 2017 to 29 October 2018	HKD 16.652	830,000	—
23 December 2014 to 22 December 2018	HKD 16.652	1,660,000	—
23 December 2015 to 22 December 2018	HKD 16.652	1,660,000	—
23 December 2016 to 22 December 2018	HKD 16.652	1,660,000	—
23 December 2017 to 22 December 2018	HKD 16.652	1,660,000	—
27 December 2014 to 26 December 2018	HKD 16.652	4,150,000	—
27 December 2015 to 26 December 2018	HKD 16.652	4,150,000	—
27 December 2016 to 26 December 2018	HKD 16.652	4,150,000	—
27 December 2017 to 26 December 2018	HKD 16.652	4,150,000	—
		39,040,000	12,480,000

Each option/warrant entitles the holder to subscribe for one ordinary share in the Company. Further details of these options/warrants are set out in Note 24 to the financial statements.

28 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 (see Note 27). During the year ended 31 December 2013, the balance of this reserve has been 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.

28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purposes of reserves

(v) Other reserve

Other reserve as at 31 December 2013 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 23);

ii) capitalisation of reserve arising from transfer of retained earnings. 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 is the portion of the grant date fair value of unexercised share options and warrants 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).

(e) Distributability of reserves

At 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB 112,360,000 (31 December 2012: RMB 80,198,000), excluding the share capital as disclosed in Note 28(c). After the end of the reporting period, the directors proposed a final dividend of HKD 1.9 cents per ordinary share (2012: HKD 2 cents per ordinary share), amounting to HKD 6,308,000 (equivalent to RMB 4,960,000) (2012: HKD 6,240,000 (equivalent to RMB 5,043,000)). This dividend has not been recognised as a liability at the end of the reporting period.

28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(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 2013, the debt-to-equity ratio of the Group was 13% (31 December 2012: 11%), and the liability-to-asset ratio of the Group was 27% (31 December 2012: 21%).

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.

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate 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 end of the reporting period, 6% (2012: 10%) and 8% (2012: 16%) 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.

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(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.

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

The following tables show the remaining contractual maturities at the end of the reporting period 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 2013					
	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***
Secured bank loan	**36,000**	**36,093**	**36,093**	**—**	**—**	**—**
Trade and other payables	**58,730**	**58,730**	**58,730**	**—**	**—**	**—**
Preferred shares	**54,639**	**96,813**	**9,892**	**10,683**	**37,457**	**38,781**
	149,369	**191,636**	**104,715**	**10,683**	**37,457**	**38,781**

	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

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

The Company

	As at 31 December 2013			As at 31 December 2012		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	**1,849**	**1,849**	**1,849**	1,656	1,656	1,656

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2013		2012	
	Interest rate %	*RMB'000*	Interest rate %	*RMB'000*
Variable rate borrowing				
Secured bank loan	**3.1**	**36,000**	—	—

(ii) Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the end of the reporting period. For variable-rate borrowings, the analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year.

At 31 December 2013, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained earnings by approximately RMB 75,000 (2012: not applicable).

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) 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 rates 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 end of the reporting period 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 end of the reporting period. 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

	2013 Exposure to Foreign currencies (expressed in RMB)				
	RMB	**USD**	**HKD**	**JPY**	**Euros**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Cash on hand and at bank	**37,120**	**6,270**	**—**	**400**	**3**
Trade and other receivables	**—**	**9,363**	**—**	**243**	**—**
Trade and other payables	**—**	**(413)**	**—**	**—**	**—**
Secured bank loan	**(36,000)**	**—**	**—**	**—**	**—**
Net exposure arising from recognised assets and liabilities	**1,120**	**15,220**	**—**	**643**	**3**

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

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

The Group *(continued)*

	2012 Exposure to Foreign currencies (expressed in RMB)				
	RMB	USD	HKD	JPY	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

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) 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			
	2013		2012	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained earnings**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained earnings
		RMB'000		*RMB'000*
RMB	**5%**	**88**	5%	125
	(5%)	**(88)**	(5%)	(125)
HKD	**5%**	**—**	5%	23
	(5%)	**—**	(5%)	(23)
USD	**5%**	**651**	5%	1,129
	(5%)	**(651)**	(5%)	(1,129)
JPY	**5%**	**2**	5%	160
	(5%)	**(2)**	(5%)	(160)
Euros	**5%**	**1**	5%	—
	(5%)	**(1)**	(5%)	—

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis *(continued)*

The sensitivity analysis assumes that the change in foreign exchange rate had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, 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 2012.

(e) Fair value measurement

(i) Financial instruments measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(e) Fair value measurement *(continued)*

(i) Financial instruments measured at fair value *(continued)*

Fair value hierarchy *(continued)*

- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2013	Fair value measurements as at 31 December 2013 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurement				
Financial assets:				
Available-for-sale financial assets	**97,000**	**—**	**97,000**	**—**

	Fair value at 31 December 2012	Fair value measurements as at 31 December 2012 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurement				
Financial assets:				
Available-for-sale financial assets	45,000	—	45,000	—

During the years ended 31 December 2012 and 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as the end of the reporting period in which they occur.

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(e) Fair value measurement *(continued)*

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of available-for-sale financial assets in Level 2 is determined by reference to the prices of similar banking products offered by the banks at the end of the reporting period.

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

All the financial assets and liabilities other than available-for-sale financial assets are carried at amounts not materially different from their fair values as at 31 December 2013.

In respect of cash and cash equivalents, restricted cash, trade and other receivables, secured bank loan 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 statement of financial position as at 31 December 2013 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 2013 has not been disclosed.

30 CAPITAL COMMITMENTS

(a) As at 31 December 2013, the Group had capital commitments for construction of property, plant and equipment as follows:

	2013	2012
	RMB'000	*RMB'000*
Authorised and contracted for	69,594	35,948
Authorised but not contracted for	71,842	190,352
	141,436	226,300

(b) As at 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013	2012
	RMB'000	*RMB'000*
Within 1 year	6,829	—
After 1 year but within 5 years	7,250	—
	14,079	—

31 MATERIAL RELATED PARTY TRANSACTIONS

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

Name of party	Relationship
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. （山東明仁福瑞達製藥有限公司「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

31 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:

	2013	2012
	RMB'000	*RMB'000*
Sales of products to related parties	**444**	615
Purchase of materials from related parties	**14,767**	31,135
Dividends on preferred shares paid to SFP	**9,159**	8,480
Lease of buildings and plant to related parties	**2,284**	2,357
Rental expense for lease of properties from a related party	**6,638**	1,340
Financial consultancy service received from a related party	**—**	360
Advances received from related parties	**—**	380

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 end of the reporting period, the Group had the following balances with related parties:

	2013	2012
	RMB'000	*RMB'000*
Trade and other receivables	**2,184**	3,007
Trade and other payables	**2,730**	5,604
Preferred shares, including current portion	**54,639**	54,748

(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:

	2013	2012
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	**5,633**	4,271
Contributions to retirement benefit schemes	**121**	132
Equity compensation benefits (see Note 24)	**52,832**	109
	58,586	4,512

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).

32 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

Pursuant to a board resolution dated on 20 March 2014, the Company declared dividends of HKD 6,308,000 (equivalent to RMB 4,960,000) to its equity shareholders. Further details are disclosed in Note 28(b).

33 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors consider the immediate and ultimate holding company of the Company at 31 December 2013 to be AFI, which is incorporated in BVI.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these consolidated financial statements, the IASB has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting period beginning on or after
Amendments to IAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
IFRS 9, *Financial instruments*	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

	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Results					
Turnover	**375,180**	274,966	206,064	153,661	117,190
Profit from the operation	**135,742**	120,848	105,907	85,127	69,091
Finance costs	**(9,983)**	(9,067)	(8,970)	(8,785)	(8,996)
Profit before taxation	**125,759**	111,781	96,937	76,342	60,095
Income tax	**(31,362)**	(22,511)	(24,312)	(15,900)	(9,407)
Profit for the year	**94,397**	89,270	72,625	60,442	50,688
Basic earnings per share (RMB)	**0.294**	0.286	0.233	0.194	0.162
Diluted earnings per share (RMB)	**0.282**	0.285	0.233	0.194	0.162
Assets and liabilities					
Non-current assets	**336,322**	214,966	127,326	122,459	114,572
Current assets	**431,984**	259,290	254,870	180,326	131,023
Current liabilities	**(122,644)**	(48,669)	(43,983)	(29,520)	(29,126)
Total assets less current liabilities	**645,662**	425,587	338,213	273,265	216,469
Non-current liabilities	**(81,317)**	(48,617)	(47,983)	(49,396)	(47,145)
Net assets	**564,345**	376,970	290,230	223,869	169,324
Capital and reserves					
Share capital	**2,961**	2,801	2,801	2,801	2,801
Reserves	**561,325**	374,091	287,341	221,068	166,523
Total equity attributable to equity shareholders of the Company	**564,286**	376,892	290,142	223,869	169,324
Non-controlling interests	**59**	78	88	—	—
Total equity	**564,345**	376,970	290,230	223,869	169,324