



Bloomage BioTechnology Corporation Limited
華熙生物科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00963

ANNUAL REPORT
2014

CONTENTS

COMPANY

- 2 Corporate Information
- 4 Group Overview

BUSINESS REVIEW AND CORPORATE GOVERNANCE

- 5 Chairman's Statement
- 8 Management's Discussion and Analysis
- 18 Biography of Directors and Senior Management
- 23 Report of the Directors
- 36 Corporate Governance Report

FINANCIAL REPORT

- 48 Independent Auditor's Report
- 50 Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 51 Consolidated Statement of Financial Position
- 53 Statement of Financial Position
- 54 Consolidated Statement of Changes in Equity
- 56 Consolidated Cash Flow Statement
- 57 Notes to the Financial Statements

FINANCIAL HIGHLIGHTS

- 136 Group Financial Highlights

Corporate Information

EXECUTIVE DIRECTORS

Ms. Zhao Yan (*Chairman*)
Mr. Jin Xuekun (*Chief Executive Officer*)
Ms. Liu Aihua
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 (*resigned on 28 February 2014*)

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
Mr. Qin Bin (*resigned on 28 February 2014*)
Mr. Zhang Fuping (*resigned as Chairman and a member on 28 February 2014*)

MEMBERS OF NOMINATION COMMITTEE

Ms. Zhan Lili (*Chairman*)
Mr. Hai Wen (*appointed on 28 February 2014*)
Ms. Liu Aihua
Mr. Zhang Fuping (*resigned on 28 February 2014*)

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 2001-2006, 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 2001-2006, 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 primarily be classified into three major grades, namely pharmaceutical grade HA and, cosmetic grade HA and food grade HA. The Group's major end products include Hyaluronan Soft Tissue Filling Gel (trade name "BioHyalux"), Medical Sodium Hyaluronate Gel for ophthalmologic use (trade name "Hymoio") and bone products for intra-articular injection (trade name "Hyprojoint"). Based on the hyaluronic acid as the core, the Group is committed to developing into the provider of the full series of products and solutions.

Chairman's Statement

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 2014.

The Group's result achieved continuous and healthy growth in 2014. The annual turnover amounted to approximately RMB481,301,000, representing an increase of approximately 28.3% as compared to the year ended 31 December 2013 and the profits attributable to shareholders was approximately RMB162,067,000 with a growth of approximately 71.7% as compared to the year ended 31 December 2013. The above growth was mainly attributable to the rapid expansion of the end products business and the smooth implementation of the Group's business transformation.

FINAL DIVIDEND AND CLOSURE OF REGISTER

The Board has recommended the payment of a final dividend of HKD2.5 cents per share of the Company (the "Share") for the year ended 31 December 2014 (2013: HKD1.9 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 18 June 2015 or any adjourned meeting, the above dividend is expected to be paid on or around 22 July 2015.

The transfer books and register of members of the Company will be closed from 15 June 2015 to 18 June 2015 (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 12 June 2015. In addition, the transfer books and register of members of the Company will be closed from 25 June 2015 to 29 June 2015 (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 4:30 p.m. on 24 June 2015. During such periods, no share transfers will be effected.

Chairman's Statement

BUSINESS REVIEW

The Group made a strategic layout, consolidated the bases of business development and reserved energy in 2014. Following the transformation from the traditional manufacturer of hyaluronic acid ("HA") raw materials to the manufacturer of HA medical beauty products with high added value, the Group continue its transformation into a service provider of medical beauty cosmetic solutions. Capitalizing on its advantages in resources, the strategy of various products mix and deep cooperation in providing solutions, the Group has formed its unique competitive edge which cannot be easily replicated by competitors.

During the year under review, both traditional HA raw materials industry and HA injection filler products market are full of unprecedented competitions. However, as our strategies were effectively implemented, both business segments recorded satisfying results. HA raw materials segment continued to maintain a steady growth with an annual sales of RMB320,286,000, representing an increase of approximately 11.7% from 2013. HA injection filler products segment increased rapidly with an annual sales of RMB160,012,000, representing an increase of approximately 84.4% from 2013. With the further deepening of the Group's strategic transformation, the percentage of the end product business in the total revenue of the Group increased from 23.1% in 2013 to 33.3% in 2014.

In line with our transformation strategy, the Group proposed the concept of "Remodeling Beauties", which not only simply comprised of surgeries and injections, but also included daily skin care, maintenance and conditioning, and etc. The Group launched a joint biological activating treatment program (BACT) and a hyaluronic acid medical customization center (Med潤 • Spa), the trials of which in several medical beauty institutions achieved good results.

The production base of Shandong Bloomage Hyinc Biopharm Company Limited ("Shandong Bloomage Hyinc") has commenced the production in the second half of 2014. The further expanded production capacity, the advanced automation equipment system and the scientific system of energy recovery further confirmed the Group's advantages in reduction of the production cost and improvement of the product process.

OUTLOOK

Ever since the entering of the 21st century, a new round of technological revolution and industrial reforms have arisen. In face of the new trend of technological innovation and development, the Group has constantly looked for new breakthrough points, so as to seize the opportunities for future technological development. In 2015, the Group will continue to deepen the strategic layout. Leveraging on its 20 years' experience in research and development, the Group will strive to create the first "Products+ Services+ Solutions+ Platform" medical beauty ecological chain through integration and upgrade.

In 2015, the Group will further increase the proportion of end product business in the Group's operation as a whole, in order to realize the comprehensive transformation and upgrading of the business. The Group will continue to strengthen the integration of global resources, actively introduce the international advanced products, equipments and technologies, and also constantly improve the product mix system. With the focus on the core product HA and its derivatives and extending to the periphery continuously, the Group implemented the layout of diversified products and solutions. Meanwhile, we will complete the expansion of multiple channels, such as public hospitals and life beauty by deepening the customer relationship.

Chairman's Statement

The Group will continue to take HA as our core advantageous resources and implement innovation-driven development strategies, so as to deliver outstanding performance and create more values for the shareholders of the Company (the "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

19 March 2015

Management's Discussion and Analysis

BUSINESS REVIEW

The Group's annual turnover for the year ended 31 December 2014 amounted to approximately RMB481.301 million, representing an increase of approximately 28.3% from 2013. The Group's gross profit increased by approximately 25.2% from approximately RMB299.859 million for the year ended 31 December 2013 to approximately RMB375.397 million for the year ended 31 December 2014. Profit attributable to equity shareholders of the Company increased by approximately 71.7% from approximately RMB94.398 million for the year ended 31 December 2013 to approximately RMB162.067 million for the year ended 31 December 2014. Subject to approval by the Shareholders at the forthcoming annual general meeting, the Directors recommend the payment of a final dividend for the year ended 31 December 2014 of HK\$2.5 cents per share (2013: HK\$1.9 cents per share) to the Shareholders whose name appear on the register of members of the Company on 29 June 2015, amounting to approximately HK\$8,328,000 in total.

Raw material product business – maintaining steady growth while exploring new market opportunities

In 2014, raw material product business of the Group posted steady growth with annual sales of approximately RMB320.286 million, representing an increase of approximately 11.7% from 2013.

In 2014, the world's economy gradually recovered, while the PRC cosmetics raw materials industry and e-commerce saw robust growth, bringing about new market opportunities. By focusing on the expansion of emerging channels and markets for raw materials, there has been positive results of the Group's promotion of new products and applications. The Group strengthened the building of its local storage and marketing team and its interactive collaboration with distributors overseas in order to further develop and exploit local resources and proactively capture international market shares. Despite an increasing number of domestic suppliers of hyaluronic acid ("HA") raw materials and their growing production capacity resulting in intensified competition in the HA raw materials market, no material and adverse impact was imposed on cosmetic grade HA and food grade HA, being the core raw material business of the Group enjoying competitive advantages. In addition, the Group actively responded to competition by expanding capacity gradually and having more product categories so as to maintain its competitive advantage.

Management's Discussion and Analysis

End product business – continuous rapid growth, supplemented by innovative business planning

In 2014, end product business recorded rapid growth and accounted for a higher percentage of the business of the Group. It achieved sales of approximately RMB160.012 million in the end product business in 2014, representing an increase of approximately 84.4% from 2013 and accounting for approximately 33.3% of the total revenue of the Group, up from approximately 23.1% in 2013.

In 2014, the Group's HA end product business still focused on HA injection filler products ("BioHyalux"). Although the approval of a number of injection products in Mainland China has led to an unprecedented competitive situation in the market, with the implementation of certain effective strategies, the Group's HA injection filler product recorded rapid increases in both market share and sales result. With respect to market strategies, leveraging on the market opportunities from rapid expansion of the consumer groups of injection products and the penetration of their coverage, the Group seized the great demand from young women for improvement of lineament, which brought a new source of market growth for BioHyalux through its market positioning of excellent facial sculpturing effects. With respect to building of marketing network, in addition to some major cities in the PRC, such as Beijing, Shanghai, Guangzhou and Shenzhen, the Group was also aware of the demand in the market of HA injection fillers in the second and third-tier cities and made targeted consumer education accordingly, which created a wider range of market opportunities for BioHyalux.

To ensure the continuous, rapid and healthy expansion of the end product business, the Group made a series of strategic moves in 2014. The Group put forward an innovative business model to supply a full series of products and solutions focusing on HA, implying the transformation of the Group from a product supplier to a platform service provider of comprehensive solutions. In 2014, the Group initially completed the allocation of products and staff in the skin beauty field. The Group will enter into comprehensive skin business from traditional cosmetic treatment and injection in respect of HA end products. On the basis of hyaluronic acid and with the utilization of internationally advanced equipment, the Group developed a series of HA medical skin care products, injection products, as well as jointly launched the comprehensive bio-activation combined treatment ("BACT") project with authoritative industry experts in the world. The Group also engaged in comprehensive cooperation with medical beauty institutions, including the production of a full range of products, training for doctors, service consultation and marketing activities. Such BACT project was implemented by the Group on pilot basis in some medical beauty institutions and had achieved good results. The Group also created "Med潤 • Spa" in cooperation with its major customers, and with the combination of medical properties, it offered "medical customized center of hyaluronic acid" at the professional laboratory level to carry out customized and exclusive treatment projects. Through the strategies of combination of different products and in-depth service cooperation in supplying solutions, the Group eliminated homogeneous competition with other competitors based on the quality of products and level of prices.

In 2014, the Group turned its vision to the international market and began to consolidate the distribution of global resources. High-end equipment and products were introduced through various methods such as strategic cooperation and agency to build up the hardware and software reserves so as to prepare the Group for becoming a solution provider.

Management's Discussion and Analysis

The Group attached great importance to professional knowledge and skill training for industry participants such as managers, doctors and consultants of medical beauty institutions. In 2014, through the establishment of the Bloomage Institute, medical beauty training was provided to cooperative partners of the Group, including anatomy, facial assessment, clinical skills, post-surgery visit, interflow and performance trainings of first class level in the world. A platform was also provided to managers of cooperative partners to share and discuss topics in the industry with a view to drive the development of the industry. In 2014, the Group organized over 20 professional trainings with attendance from over 500 training participants. Through the organization of the above professional trainings, the professional level of the Group was enhanced while the industry participants' awareness of the Group and their loyalty to the products and services of the Group had been strengthened.

Technology research and development, qualification innovation — driving force of continuous development

In 2014, the Group strived to build a systematic project research and development platform and a product qualification certification system. In connection with the research and development of raw materials, while ensuring that the HA production process maintains leading standard in the industry on an ongoing basis, the Group developed and obtained certification for a series of HA new materials. The ultra-low endotoxin injection grade HA production process was regarded as the international leading standard. The new product oil dispersion sodium hyaluronate Hyacolor™ was awarded the "2014 Technology Innovation Award for Personal Care and Cosmetic Products in China" (2014中國個人護理品及化妝品技術創新獎). The new food ingredient HAPLEX® Sodium Hyaluronate was awarded the "2014 Ringier Technology Innovation Award for the Food and Beverage Industry" (2014食品飲料工業榮格技術創新獎). As to the international registration and certification, the Group completed the cGMP routine check by U.S. FDA and raw material for medical use in various specifications obtained Canadian DMF registration and Japanese MF certification, respectively. In 2014, the Group also made great progress in the research and development of non-HA raw material. For instance, new product Gabacare™, being a raw material for cosmetics, was successfully introduced to the market and Gabarelix™ obtained China's food production license.

For the research and development of end products, "Development of Hyaluronan Soft Tissue Filling Gel Series Products" and "Research and Development of Injection Grade Hyaluronic Acid" was included as a technological innovative project in Shandong Province for 2014. Injection grade hyaluronic acid (trade name "海力達", hereinafter known as "Hyprojoint"), an orthopedic treater, was granted China's GMP certificate. In the second half of 2014, the Group established a R&D team for medical skin care products consisting of scientific researchers from the world's leading cosmetics companies who adhere to a philosophy of bio-revitalizing and adopt a unique HA production and compounding technique to develop patented "Honeycomb Hyaluronic Acid". As at the end of 2014, the Group has developed and registered a number of "Cosmetics" (妝) and "Instrument" (械) products to provide ongoing technical support for platform providers to diversify their product chain and create comprehensive service solutions.

Management's Discussion and Analysis

Adhering to the operation concepts of motivated progressiveness and striving to achieve better performance, the Group won a number of awards and honors. The Group was rated as "the Most Influential Raw Material Supplier in the Flavors, Fragrances and Cosmetics Industry of the PRC" (中國香料香精化妝品行業最具影響力原材料供應商) by China Association of Fragrance Flavour and Cosmetics Industries in September 2014 and was granted the "Technology Innovation (Invention) Award in the Flavors, Fragrances and Cosmetics Industry of the PRC" (中國香料香精化妝品行業技術創新(發明)獎). Leveraging on the excellent performance and rapid growth in recent years, the Group entered the Forbes ranking list for the first time as "Top 200 Small and Medium Listed Enterprises in Asia in 2014".

Talent recruitment – a strong assurance for implementation of strategies

In 2014, in order to cater for the development needs of innovative business models, the Group had conducted a series of staff deployment consolidations in channels and product line management. The Group solicited high-end talents actively, particularly professional marketing, research and development and management personnel, to ensure the smooth implementation of the long-term strategy of the Group. In 2014, the research and development team was expanded to nearly 70 members, and over 80% were master's and doctorate degree holders. Members of the R&D team have published dissertations in a number of authoritative journals, such as Bioresour Technology, reflecting their academic capabilities. The Group's marketing team has extensive industry experience and is a young, passionate and aggressive team.

BUSINESS OUTLOOK

In 2015, the Group will continue to deepen its strategic layout. By leveraging on the advantages in, among others, research and development capabilities, product quality and production capacity and focusing on HA, a business layout of multiple products, multiple brands and multiple channels will be developed and the "Products + Services + Solutions + Platform" development strategy for the medical beauty ecological chain will be formed.

Raw material product business-to continue a stable development trend, further save energy and reduce consumption and utilize production scale effect

Looking ahead to 2015, both competition and opportunity will be seen in the HA raw material market. The Group will offer more product portfolios and solutions by leveraging on its advantages in raw material production and R&D, further refining product categories, continue to explore emerging raw material channel and market, innovate marketing model and increase the sale of new products with higher added value based on their outstanding quality and differentiation features. The Group will promote sales in overseas market through three major measures, namely localization of organization structure, providing direct services to end customers and focusing on markets at pharmaceutical level. The Group will also cultivate key customers in traditional businesses to steadily improve sales performance of HA raw material products.

Management's Discussion and Analysis

In the second half of 2014, the production base of Shandong Bloomage Hyinc under the Group commenced production. The new production base has taken into account factors such as energy saving, consumption reduction and emission reduction factors in the determination of technical process, selection of equipment type and utilization of residual heat. With the adoption of scale production, the production base has demonstrated great advantages in improving product quality and lowering production cost. In 2015, the Group will reasonably allocate resources mix among various production bases, optimize production factors such as staff and facilities, enlarge scale production on the basis of maintaining existing advantages in equipment, technologies and qualifications, improve the management over production process and operation process, further strengthen the effect of scale production and enhance the Group's competitive edges.

End product business - implement business layout comprehensively, realize the target of the "Products + Services + Solutions + Platform" medical beauty ecological chain, enhance sales results continuously

In recent years, with increasing social acceptance of medical beauty and continuous growth in the spending power of citizens, the vast market demand for plastic surgery in China will be the biggest driving force to stimulate the development of beauty plastic surgery industry in China. Despite the obvious emergence of multi-brand competition landscape in the market, there are still enormous development space and growth potential for the whole industry. In 2015, the Group will continue to deepen the strategic layout through the production of self-developed products and external merger and acquisition of world-leading products and equipment to transform gradually from a supplier of single injection product to multiple products with complementary functions and diversified treatment methods, to extend from plastic surgery area to comprehensive skin maintenance and protection area through the provision of skin maintenance and protection solutions and expanding channels, and to ultimately achieve the target of a medical beauty ecological chain through the building of an organic linking platform for integrating consumers, medical beauty institutions and product suppliers.

In 2015, the results performance in end products will depend mainly on continuous and healthy growth in HA injection filler products and supplemented by effective support from skin health products, together with the results performance from new growth point in surgical products. With respect to the business of injection filler products, the Group will ensure the stability and long-term effectiveness of products through stronger technological support, improve the product mix continuously by launching more categories and more brands, create competitive edges which cannot be easily surpassed by competitors, respond quickly to market demand, provide numerous solutions and further develop customer resources, so as to achieve a rapid increase in the market share for HA injection fillers.

Management's Discussion and Analysis

In 2015, the Group will fully promote the BACT business by further combining the means of skin beauty and health at various levels, such as injection micro-shaping, photoelectric treatment equipment, micro-needle therapy and medical skincare products, and export comprehensive skin beauty, maintenance and protection solutions with customized design for consumers as a whole package to medical beauty institutions. The Group will commence its full cooperation with public hospitals. In 2014, on the basis of the preliminary preparation plan for the sales of two major surgical products, Hymoio and Hyprojoint, gradual progress was made in the tasks of tendering and marketing.

In addition, the Group will closely follow mobile internet's development trend and focus on changes in consumer behavior, particularly young consumers' psychology and habits, to adopt the latest mobile internet technologies and ideas on a trial basis in marketing. The Group is optimistic about penetration of mobile internet into different sectors and has confidence in the continuous growth in results through the flexible application of mobile internet tools to link up consumers, doctors, medical beauty institutions and product suppliers organically and the innovation and development of business models based on the existing business layout in the PRC.

In 2015, the Group will continue to enhance the integration of global resources by improving product structure and system through mergers and acquisitions, investment, strategic cooperation and others, and will take initiative to introduce advanced products, technologies and equipment to accelerate the consolidation and upgrading of the Group's business.

Technology research and development

In 2015, the Group will further implement the management framework of the research and development business department according to the subdivisions of raw material products, end products, registration and reporting and continue to implement and enhance integrated management and control over R&D projects. The Group will step up efforts to develop new products and projects and look for appropriate opportunities to introduce international high end technology products. For raw material products, the Group will actively expand the industrial chain of HA raw materials, HA derivatives and non-HA fermented product series. For end products, the Group will introduce global core technologies and products through proprietary research and development and external collaboration to enrich the injection product line, focus on combination therapy to propose more and more extensive solutions and customize HA-related products, accelerate research and development of medicine cosmetology series products, surgical product series and others, enhance the technical reserve of new products, speed up the international and domestic product registration progress and shorten setup time for launch of new products so as to secure the Group's market sales by a rich portfolio of products.

Management's Discussion and Analysis

FINANCIAL REVIEW

Turnover

The Group's turnover for the year ended 31 December 2014 was approximately RMB481.301 million, representing an increase of approximately 28.3% or approximately RMB106.121 million as compared to the corresponding period of 2013. The increase in turnover was mainly attributable to the rapid growth 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			
	2014		2013	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
HA raw materials	320,286	66.5	286,634	76.4
HA end products	160,012	33.3	86,759	23.1
Others	1,003	0.2	1,787	0.5
Total	481,301	100.0	375,180	100.0

Cost of sales

Cost of sales for the year ended 31 December 2014 was approximately RMB105.904 million, representing an increase of approximately 40.6% as compared to approximately RMB75.321 million for the corresponding period of 2013. The increase was mainly attributable to the increase of sales volume.

Gross profit margin

The Group's gross profit margin for the year ended 31 December 2014 slightly decreased to approximately 78.0% from approximately 79.9% in the year ended 31 December 2013. The decrease was mainly due to greater prices competition pressure of food-grade HA raw materials and increase in the categories of HA products.

Other revenue

Other revenue of the Group was approximately RMB12.979 million for the year ended 31 December 2014, representing an increase of 0.1% from approximately RMB12.967 million for the year ended 31 December 2013.

Distribution costs

The Group's distribution costs for the year ended 31 December 2014 were approximately RMB74.646 million, representing an increase of approximately 27.3% from approximately RMB58.618 million for the year ended 31 December 2013. The increase was mainly attributable to the increase in marketing costs of HA end products which is in line with the Group's strategy on promotion enhancement and business development.

Management's Discussion and Analysis

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2014 were approximately RMB104.128 million, representing a decrease of approximately 10.3% from approximately RMB116.109 million for the year ended 31 December 2013. The decrease in administrative expenses was mainly due to the net effect of the decrease in non-cash equity-settled share-based payment expenses and increase in staff costs as a result of increase in the number of staff. The non-cash equity-settled share-based payment expenses for the year ended 31 December 2014 were approximately RMB26.549 million (2013: approximately RMB57.285 million).

Other operating expenses

The Group's other operating expenses for the year ended 31 December 2014 were approximately RMB1.864 million, representing a decrease of approximately 20.9% from approximately RMB2.357 million for the year ended 31 December 2013.

Finance costs

The Group's finance costs for the year ended 31 December 2014 were approximately RMB9.617 million, representing a decrease of approximately 3.7% from approximately RMB9.983 million for the year ended 31 December 2013. The Group's finance costs mainly represented the dividends on the preferred shares.

Profit for the year

The Group's profit for the year ended 31 December 2014 was approximately RMB162.066 million, representing an increase of approximately 71.7% from approximately RMB94.397 million for the year ended 31 December 2013. The increase in profit for the year was mainly attributable to the rapid growth in sales of HA end products and the decrease in the non-cash equity-settled share-based payment expenses.

Final dividend

The Board proposed the payment of a final dividend of HK\$2.5 cents (2013: HK\$1.9 cents) per share to the Shareholders whose names appear on the register of members of the Company on 29 June 2015. Subject to the approval of the Shareholders at the forthcoming annual general meeting (the "AGM"), it is expected that the final dividend will be paid on or around 22 July 2015.

Management's Discussion and Analysis

Closure of register of members

The transfer books and register of members of the Company will be closed from 15 June 2015 to 18 June 2015 (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 12 June 2015. In addition, the transfer books and register of members of the Company will be closed from 25 June 2015 to 29 June 2015 (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 above-mentioned address for registration no later than 4:30 p.m. on 24 June 2015. During such periods, no share transfers will be effected.

Liquidity, capital structure and financial resources

As at 31 December 2014, the Group had current assets of approximately RMB516.397 million (2013: approximately RMB431.984 million) and current liabilities of approximately RMB160.654 million (2013: approximately RMB122.644 million). The current ratio of the Group as at 31 December 2014 was approximately 321.4% (2013: approximately 352.2%).

As at 31 December 2014, the Group had cash and cash equivalents of approximately RMB187.840 million (2013: approximately RMB169.429 million), of which approximately 87% (2013: approximately 71%) was denominated in RMB, approximately 6% (2013: approximately 24%) in HKD, approximately 7% (2013: approximately 4%) in United States Dollars ("USD") and approximately 0% (2013: approximately 1%) in Japanese Yen ("JPY").

Total liabilities of the Group amounted to approximately RMB212.937 million (2013: approximately RMB203.961 million) as at 31 December 2014.

As at 31 December 2014, the Group has no borrowing (31 December 2013: RMB36 million, which was denominated in RMB).

As at 31 December 2014, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was approximately 22.1% (2013: approximately 26.5%). The decrease in gearing ratio as at 31 December 2014 as compared to that as at 31 December 2013 was principally attributable to the decrease in bank loan.

Net cash generated from operating activities for the year ended 31 December 2014 was approximately RMB137.473 million (2013: approximately RMB155.327 million).

Net cash used in investing activities for the year ended 31 December 2014 was approximately RMB71.422 million (2013: approximately RMB167.642 million), mainly representing the expenditure for the purchase of equipments and construction of a new factory in Jinan City, Shandong Province, the PRC.

Net cash used in financing activities for the year ended 31 December 2014 was approximately RMB47.673 million (2013: net cash inflow of approximately RMB62.812 million), mainly representing the repayment of bank loans of approximately RMB36.000 million and the payment of dividends on preferred shares of approximately RMB9.892 million.

Management's Discussion and Analysis

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.

Treasury Policy

It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. During the year ended 31 December 2014, the Group continued to adopt a conservative approach to financial risk management with no significant borrowings. 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 2014.

Contingent liabilities

As at 31 December 2014, the Group had no material contingent liabilities.

Capital commitment

As at 31 December 2014, the capital commitment of the Group was approximately RMB6.190 million (2013: approximately RMB141.436 million).

Employee information

As at 31 December 2014, the Group had 568 (2013: 470) employees, the majority of whom were stationed in the PRC. Total remuneration for the year ended 31 December 2014 amounted to approximately RMB98.636 million (2013: approximately RMB112.938 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 2014, the Group did not have any pledge on its assets.

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 2014.

Biography of Directors and Senior Management

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 48, is the Chairman and an executive Director. Ms. Zhao is the director of several 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. Ms. Zhao started her business from 1989 and had engaged in various sectors, including real estate development, culture and sports, biotechnology, investment and management. She has over 26 years of experience in investment and management. Presently, Ms. Zhao is also the chairman of Bloomage International Investments Group Inc. ("Bloomage International"). Ms. Zhao is the sole director and shareholder of AIM First Investments Limited which holds approximately 54.79% of the shares of the Company.

Mr. Jin Xuekun, aged 50, is an executive Director and the Chief Executive Officer. Mr. Jin is the director of several subsidiaries of the Company. Mr. Jin obtained from Fordham University a master's degree of Business Administration in 2002. Before joining the Group, Mr. Jin served as the general manager of the PRC division of Esaote (Shenzhen) Medical Equipment Co., Ltd., with profound understanding in the corporate strategic management, innovation of business model, and in fostering corporate culture. Mr. Jin also previously worked in various large international medical instrument groups. Mr. Jin has over 20 years' experience in the sales and marketing of international medical instruments in the PRC. Mr. Jin is fully responsible for the Group's business planning and operations management. Mr. Jin had been an independent non-executive Director from 18 June 2012 to 29 October 2013.

Ms. Liu Aihua, aged 52, 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 Bloomage Freda Biopharmaceutical Co., Ltd. ("Bloomage Biopharm"). 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 the director of several subsidiaries of the Company. She joined the Group in January 2002.

Biography of Directors and Senior Management

Ms. Wang Aihua, aged 36, 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. and was responsible for analysis and assessment of company solvency and major loan projects. She is responsible for the office operation of the Board and capital management of the Group. Ms. Wang is the director of several subsidiaries of the Company. She joined the Group in December 2008.

NON-EXECUTIVE DIRECTOR

Mr. Guo Jiajun (Song), aged 39, is a non-executive Director. He had been an executive Director and the chief executive officer of the Company. 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. 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 42, is an independent non-executive Director. She completed her studies in business administration at the Faculty of Business Administration of Capital University of Economics and Business in 2003. Ms. Zhan was an assistant to the General Manager of Tomson (Shanghai) Company Limited (湯臣高爾夫(上海)有限公司) from 2000 to 2001, worked in the human resource department of the Beijing branch of Industrial Bank Co., Ltd. (興業銀行) from 2003 to 2007 and has been a president assistant of Beijing Hai Dian Science & Technology Development Co., Ltd. (北京海澱科技發展有限公司), a company engaged in electronics and information technology, environmental protection materials, property development and e-business, since 2007.

Biography of Directors and Senior Management

Mr. Hai Wen, aged 62, was appointed as an independent non-executive Director on 28 February 2014. 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. He is an independent director of China Vanke Co., Ltd., a company listed on Shenzhen Stock Exchange (stock code: 000002) and the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") (stock code: 2202).

Mr. Li Junhong, aged 48, was appointed as an independent non-executive Director on 28 February 2014. 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 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 SEHK. 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).

SENIOR MANAGEMENT

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

Mr. Gong Anmin, aged 49, was appointed as the chief financial officer of the Company in January 2014. Mr. Gong graduated with a bachelor's degree in economics 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.

Biography of Directors and Senior Management

Mr. Guo Xueping, aged 50, is the vice general manager and a director of Bloomage Biopharm. Mr. Guo graduated from Shandong University (山東大學), majoring in pharmacy, microbiology and biochemical pharmacy, and was awarded a Ph.D. Mr. Guo worked for Biopharmaceuticals Research Institute for 10 years before joining the Group in January 2000. Mr. Guo obtained the National Technology Advancement Third-Class Award awarded by the National Technology Committee (國家科學技術委員會) (which has been renamed as 科學技術部 ("The Ministry of Science and Technology")), an independent third party, in 1995 for his research in the production of injection grade hyaluronic acid, the Great Achievement Award of the "Ninth five-years" National Key Technology Tackle Project in 2001 jointly organized by the Ministry of Science and Technology (科學技術部), Ministry of Finance (財政部), National Development and Planning Committee (國家發展計劃委員會) and State Economic and Trading Committee (國家經濟及貿易委員會), all being independent third parties, for his research in "the production of hyaluronic acid pharmaceuticals by fermentation", and obtained the Wu Jie Ping Medical Research Award, Paul Janssen Pharmaceutical Research Award—Medical Production Third Class Award (吳階平醫學研究獎—保羅•楊森藥學研究獎製藥工程專業三等獎) in 2002, which is an award established by International Health Exchange and Cooperation Centre of Ministry of Health (衛生部國際交流與合作中心) and a pharmaceutical enterprise to award the medical and pharmaceutical researches in the PRC, both being independent third parties.

Mr. Wang Chunxi, aged 47, is the vice general manager of Bloomage Biopharm. Mr. Wang graduated from East China University of Science & Technology (華東化工學院) with a bachelor's degree in engineering major in biochemistry engineering. Mr. Wang worked for the Biopharmaceuticals Research Institute for 10 years. He joined the Group in January 2000.

Mr. Luan Yihong, aged 51, is the vice general manager of Bloomage Biopharm. Mr. Luan graduated from Shandong University (山東大學) with a master's degree in microbiology and biochemical pharmacy. He was awarded the Scientific and Technological Advancement Award in Shandong Province, the PRC. Mr. Luan has nearly 30 years' experience in pharmaceutical production process and quality control of medicine. He joined the Group in 2004.

Ms. Xu Guixin, aged 42, is the vice general manager of Bloomage Biopharm. Ms. Xu graduated from Shandong University (山東大學) with a bachelor's degree in Biology. Ms. Xu has nearly 20 years' experience in pharmaceutical sales. She joined the Group in January 2000 and is a director of a subsidiary of the Company.

Mr. Hu Ning, aged 44, is the vice general manager of Beijing Bloomage Hyinc Technology Company Limited. Mr. Hu graduated from the University of Nottingham in England with a master degree in operation management. He had worked in multinational companies and state-owned enterprises with over 20 years' working experience in marketing, products and channel operation. He joined the Group in 2014.

Mr. Yau Waiyan, aged 39, 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 a subsidiary of the Company.

Biography of Directors and Senior Management

COMPANY SECRETARY

Mr. Loong Ping Kwan, aged 50, 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 SEHK (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 and its subsidiaries for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year ended 31 December 2014 was 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 ended 31 December 2014.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 50.

Subject to the approval by the shareholders of the Company at the AGM, the Directors recommended the payment of a final dividend of HKD2.5 cents for the year ended 31 December 2014 to shareholders whose names appear on the register of members of the Company on 29 June 2015, amounting to approximately HKD8,328,000 in aggregate.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from 15 June 2015 to 18 June 2015 (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 12 June 2015. In addition, the transfer books and register of members of the Company will be closed from 25 June 2015 to 29 June 2015 (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 24 June 2015. 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 2014 and the assets and liabilities of the Group as at 31 December 2010, 2011, 2012, 2013 and 2014 are set out on page 136.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2014 are set out in Note 12 to the financial statements.

Report of the Directors

SIGNIFICANT CHANGE IN FIXED ASSETS

Mainly due to the fact that the production base of Shandong Bloomage Hyinc has completed its construction and commenced production in 2014, there had been a significant decrease in construction in progress for the year ended 31 December 2014. Details of the movements in the Group's construction in progress during the year ended 31 December 2014 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 2014 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 2014 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, 9 and 31(c) 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:

	2014	2013
HKD 1,000,001 ~ HKD 1,500,000	—	1
HKD 1,500,001 ~ HKD 2,000,000	3	1
HKD 2,000,001 ~ HKD 2,500,000	1	—
HKD 3,000,001 ~ HKD 3,500,000	—	2
HKD 30,500,001 ~ HKD 31,000,000	1	—
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 ended 31 December 2014.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31 December 2014 were:

Executive Directors:

Ms. Zhao Yan (*Chairman*)

Mr. Jin Xuekun (*Chief Executive Officer*)

Ms. Liu Aihua

Ms. Wang Aihua

Non-executive Director:

Mr. Guo Jiajun

Independent non-executive Directors:

Ms. Zhan Lili

Mr. Hai Wen (*appointed on 28 February 2014*)

Mr. Li Junhong (*appointed on 28 February 2014*)

Mr. Zhang Fuping (*resigned on 28 February 2014*)

Mr. Qin Bin (*resigned on 28 February 2014*)

Each of Ms. Zhao Yan, Ms. Liu Aihua and Ms. Zhan Lili 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 being 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 28 May 2014 to the 2015 annual general meeting to be convened in 2016. 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 28 May 2014 to the 2015 annual general meeting to be convened in 2016. Mr. Guo Jiajun and the Company may terminate the appointment by giving the other party not less than three months' prior notice in writing. 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 commencing from 28 February 2015 to the 2016 annual general meeting to be convened in 2017. Each of the independent non-executive Directors and the Company may terminate the appointment at any time during the term by giving the other party at least one month's notice in writing.

Report of the Directors

Save as disclosed above, no Director proposed for re-election at the AGM has a service contract with the Company, which is not determinable by the Company within one year without payment other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 18 to 22.

SHARE OPTION SCHEME

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.

Report of the Directors

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 2.63% 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.

Report of the Directors

The status of the share options granted up to 31 December 2014 is as follows:

Name and category of participant	Number of unlisted share options								Share price of the Company as at the date of grant of share options <i>HKD per share</i>
	As at 1 January 2014	Granted during the year	Cancelled/lapsed during the year	Exercised during the year	As at 31 December 2014	Date of grant of share options	Vesting period of share options*	End of exercise period	
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	—	—	1,124,000	7,476,000	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	<u>22,440,000</u>	<u>—</u>	<u>—</u>	<u>1,124,000</u>	<u>21,316,000</u>				

Report of the Directors

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 2014, 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	Approximate percentage of issued share capital of the Company
Ms. Zhao Yan	Interest of a controlled corporation (<i>Note 2 and 6</i>)	182,520,000(L)	54.79%
		9,960,000(L)	2.99%
		9,960,000(S)	2.99%
	Beneficial owner	1,000,000(L)	0.30%
Ms. Liu Aihua	Interest of a controlled corporation (<i>Note 3</i>)	4,544,000(L)	1.36%
		Beneficial owner (<i>Note 4</i>)	2,190,000(L)
Mr. Guo Jiajun	Beneficial owner (<i>Note 4</i>)	700,000(L)	0.21%
Ms. Wang Aihua	Beneficial owner (<i>Note 4</i>)	680,000(L)	0.20%
Mr. Jin Xuekun	Interest of a controlled corporation (<i>Note 5 and 6</i>)	16,600,000(L)	4.98%
		9,960,000(L)	2.99%
		9,960,000(S)	2.99%
	Beneficial owner (<i>Note 4</i>)	7,317,500(L)	2.20%

Report of the Directors

Notes:

- (1) The letter "L" denotes a long position in the Shares and the letter "S" denotes a short 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.
- (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. Mr. Jin holds 367,500 Shares through his individual security account.
- (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.
- (6) On 22 May 2014, AFI had granted a call option to Wealthy Delight ("AFI Call Option") exercisable during the period from 22 May 2014 to 22 May 2019 to require AFI to transfer an aggregate of 9,960,000 shares of the Company or any part thereof held by AFI (the "Option Shares") to Wealthy Delight at HK\$5.8 per share (the "Transfer Price"); and Wealthy Delight had granted a call option to AFI exercisable during the period commencing on the completion date of the transfer of the relevant Option Shares under the AFI Call Option and ending on 22 May 2019 to require Wealthy Delight to transfer the Option Shares or any part thereof held by Wealthy Delight to AFI at the Transfer Price on the condition that AFI Call Option has been exercised by Wealthy Delight and Mr. Jin resigns as the chief executive officer of the Company due to personal reason(s).

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

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

Save as disclosed above, as at 31 December 2014, 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.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2014, 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	Approximate percentage of the issued capital of the Company
AFI (Note 2 and 6)	Beneficial owner	182,520,000(L)	54.79%
		9,960,000(L)	2.99%
		9,960,000(S)	2.99%
Mr. Wang Yi (Note 3)	Interest of spouse	183,520,000(L)	55.09%
		9,960,000(L)	2.99%
		9,960,000(S)	2.99%
Wealthy Delight (Note 4 and 6)	Beneficial owner	16,600,000(L)	4.98%
		9,960,000(L)	2.99%
		9,960,000(S)	2.99%
Ms. Zhang Lanying (Note 5)	Interest of spouse	23,917,500(L)	7.18%
		9,960,000(L)	2.99%
		9,960,000(S)	2.99%
Yong Rong Global Excellence Fund	Beneficial owner	26,800,000(L)	8.05%
UBS AG.	Beneficial owner	693,442(L)	0.21%
		195,000(S)	0.06%
	Guaranteed interest holder of shares	13,705,000(L)	4.11%
	Interest of a controlled corporation	2,692,500(L) 60,000(S)	0.81% 0.02%

Notes:

- (1) The letter "L" denotes a long position in the Shares and the letter "S" denotes a short position of 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.
- (6) On 22 May 2014, AFI had granted a call option to Wealthy Delight ("AFI Call Option") exercisable during the period from 22 May 2014 to 22 May 2019 to require AFI to transfer an aggregate of 9,960,000 shares of the Company or any part thereof held by AFI (the "Option Shares") to Wealthy Delight at HK\$5.8 per share (the "Transfer Price"); and Wealthy Delight had granted a call option to AFI exercisable during the period commencing on the completion date of the transfer of the relevant Option Shares under the AFI Call Option and ending on 22 May 2019 to require Wealthy Delight to transfer the Option Shares or any part thereof held by Wealthy Delight to AFI at the Transfer Price on the condition that AFI Call Option has been exercised by Wealthy Delight and Mr. Jin resigns as the chief executive officer of the Company due to personal reason(s).

Report of the Directors

Save as disclosed above, as at 31 December 2014, 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 2014 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 28 February 2014:

- (1) Upon the resignation of Mr. Zhang Fuping ("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 2014, 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 2014.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2014, the Group's sales to the largest and five largest customers accounted for approximately 7.2% and 21.4% respectively of the Group's turnover while the Group's purchase from the largest and five largest suppliers accounted for approximately 32.5% and 55.0% respectively of the Group's purchase.

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

CONTINUING CONNECTED TRANSACTIONS

On 18 January 2013, Beijing Bloomage Hyinc Technology Company Limited ("Beijing Bloomage Hyinc") entered into a property leasing agreement (the "Property Leasing Agreement") with Beijing Bloomage Central Property Management Co., Ltd ("Bloomage Property"), pursuant to which Beijing Bloomage Hyinc leases from Bloomage Property certain properties located in Beijing, the PRC as office for a term of 3 years from 1 January 2013 to 31 December 2015 at an annual rental cap of RMB6,252,261.6. As Bloomage Property is currently ultimately owned as to approximately 86.8% 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

As none of the applicable percentage ratios (other than the profits ratio) for the Property Leasing Agreement in aggregate, on an annual basis, exceeds the 5% threshold under Rule 14A.76 of the Listing Rules, the 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 Property Leasing Agreement are set out in the announcement of the Company dated 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.

Report of the Directors

The Company's auditors have also confirmed in writing to the Board that:

- (1) the above connected transaction had received the approval of the Board;
- (2) nothing had come to their attention which caused them to believe that:
 - the connected transaction had not been entered into in accordance with the relevant agreement governing the transactions;
 - the connected transaction 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 transaction in 2014 was not within the cap amount as disclosed in the Company's announcement on 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) under 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.

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

For the year ended 31 December 2014, 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.

Report of the Directors

AUDITORS

The financial statements for the year ended 31 December 2014 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, 19 March 2015

Corporate Governance Report

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

During the year ended 31 December 2014, 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 for the year ended 31 December 2014 are summarized as below.

BOARD OF DIRECTORS

As at 31 December 2014, 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 (*Chief Executive Officer*)

Ms. Liu Aihua

Ms. Wang Aihua

Non-executive Director

Mr. Guo Jiajun

Independent non-executive Directors

Ms. Zhan Lili

Mr. Hai Wen (*appointed on 28 February 2014*)

Mr. Li Junhong (*appointed on 28 February 2014*)

Mr. Zhang Fuping (*resigned on 28 February 2014*)

Mr. Qin Bin (*resigned 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 circumstances, 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 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.

The Company has complied with Rules 3.10(1) and 3.10A of the Listing Rules. During the year ended 31 December 2014, 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. Ms. Zhao Yan and Mr. Jin Xuekun are business partners of the companies which are outside the Group. 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 of the Board ("Chairman") and the chief executive officer of the Company ("Chief Executive Officer").

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE

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

BOARD MEETINGS AND ATTENDANCE

Under code provision A.1.1 of the Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. During the year ended 31 December 2014, the Board held ten meetings and the individual attendance of the Directors at the board meetings is as follows:

	Attendance/ Number of Meetings eligible to attend
Ms. Zhao Yan (<i>Chairman</i>)	8/10
Mr. Jin Xuekun (<i>Chief Executive Officer</i>)	7/10
Ms. Liu Aihua	5/10
Ms. Wang Aihua	10/10
Mr. Guo Jiajun	6/10
Ms. Zhan Lili	4/10
Mr. Hai Wen (<i>appointed on 28 February 2014</i>)	3/6
Mr. Li Junhong (<i>appointed on 28 February 2014</i>)	3/6
Mr. Zhang Fuping (<i>resigned on 28 February 2014</i>)	1/4
Mr. Qin Bin (<i>resigned on 28 February 2014</i>)	1/4

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 2014, the 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 the 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 2014, 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.

Corporate Governance Report

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 2014 is as follows:

	Attending seminar(s)/ conference(s) relevant to the business or directors' duties
Ms. Zhao Yan	√
Mr. Jin Xuekun	√
Ms. Liu Aihua	√
Ms. Wang Aihua	√
Mr. Guo Jiajun	√
Ms. Zhan Lili	√
Mr. Hai Wen	√
Mr. Li Junhong	√

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.

Corporate Governance Report

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 28 May 2014 to the 2015 annual general meeting to be convened in 2016. 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 28 May 2014 to the 2015 annual general meeting to be convened in 2016. Mr. Guo Jiajun and the Company may terminate the appointment by giving the other party not less than three months' prior notice in writing. 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 commencing from 28 February 2015 to the 2016 annual general meeting to be convened in 2017. Each of the independent non-executive Directors and the Company may terminate the appointment at any time during the term by giving the other party at least one month's notice in writing.

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 87, Ms. Zhao Yan, Ms. Liu Aihua and Ms. Zhan Lili will retire from office as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

MODEL CODE 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 2014. Moreover, no incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

Corporate Governance Report

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 2014, the Audit Committee has reviewed the Group's internal controls. The Group's annual report for the year ended 31 December 2014 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 2014, and performed the major works as below:

1. reviewed the annual financial results and report for the year ended 31 December 2013 and interim financial results and report for the six months ended 30 June 2014;
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.

Corporate Governance Report

The members and attendance of the Audit Committee meetings are as follows:

	Attendance/ Number of Meetings eligible to attend
Mr. Li Junhong (<i>Chairman</i>) (<i>appointed on 28 February 2014</i>)	2/2
Ms. Zhan Lili	2/2
Mr. Hai Wen (<i>appointed on 28 February 2014</i>)	2/2

AUDITORS' REMUNERATION

During the year ended 31 December 2014, 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	2014	2013
	RMB'000	RMB'000
Non-audit services	27	26
Audit services	1,300	1,000
	1,327	1,026

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.

Corporate Governance Report

The Nomination Committee held two meetings during the year ended 31 December 2014, 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 appointment of Mr. Hai Wen and Mr. Li Junhong as the independent non-executive Directors to replace Mr. Zhang Fuping and Mr. Qin Bin respectively and made recommendations to the Board in this regard.

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

	Attendance/ Number of Meetings eligible to attend
Ms. Zhan Lili (<i>Chairman</i>)	2/2
Mr. Zhang Fuping (<i>resigned on 28 February 2014</i>)	1/1
Ms. Liu Aihua	2/2
Mr. Hai Wen (<i>appointed on 28 February 2014</i>)	1/1

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 Directors, the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy 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, re-election and dismissal 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

Corporate Governance Report

- (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 one meeting during the year ended 31 December 2014, 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; and
3. reviewed and discussed the terms regarding the Directors’ remuneration, benefits and privilege of the appointment contracts for Mr. Hai Wen and Mr. Li Junhong.

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

	Attendance/ Number of Meeting eligible to attend
Mr. Hai Wen (<i>Chairman</i>) (<i>appointed on 28 February 2014</i>)	—
Mr. Zhang Fuping (<i>Chairman</i>) (<i>resigned on 28 February 2014</i>)	1/1
Mr. Jin Xuekun	1/1
Mr. Li Junhong (<i>appointed on 28 February 2014</i>)	—
Mr. Qin Bin (<i>resigned on 28 February 2014</i>)	1/1

At the meeting, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages and performance of the Directors (including proposed Directors) for the year ended 31 December 2014.

Corporate Governance Report

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2014. The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2014. 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, Nomination Committee and Remuneration 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.

Corporate Governance Report

GENERAL MEETINGS WITH SHAREHOLDERS

There was one general meeting held during 2014, which was the annual general meeting held on 28 May 2014.

The attendance record of the Directors at the general meetings in 2014 was as follows:

Directors	Attendance/ Number of General Meeting eligible to attend
Ms. Zhao Yan (<i>Chairman</i>)	1/1
Mr. Jin Xuekun	1/1
Ms. Liu Aihua	1/1
Ms. Wang Aihua	1/1
Mr. Guo Jiajun	1/1
Ms. Zhan Lili	1/1
Mr. Hai Wen (<i>appointed on 28 February 2014</i>)	1/1
Mr. Li Junhong (<i>appointed on 28 February 2014</i>)	1/1
Mr. Zhang Fuping (<i>resigned on 28 February 2014</i>)	—
Mr. Qin Bin (<i>resigned on 28 February 2014</i>)	—

The Company's external auditor also attended the annual general meeting held on 28 May 2014.

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 2001-2006, 20/F, Jardine House, 1 Connaught Place, Central, Hong Kong.

Corporate Governance Report

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 2001-2006, 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 2014, there had been no significant change in the Company's constitutional documents.

Independent Auditor's Report



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 50 to 135, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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.

Independent Auditor's Report *(continued)*

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 2014 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

19 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Turnover	4	481,301	375,180
Cost of sales		(105,904)	(75,321)
Gross profit		375,397	299,859
Other revenue	5	12,979	12,967
Distribution costs		(74,646)	(58,618)
Administrative expenses		(104,128)	(116,109)
Other operating expenses		(1,864)	(2,357)
Profit from the operation		207,738	135,742
Finance costs	6(a)	(9,617)	(9,983)
Profit before taxation	6	198,121	125,759
Income tax	7(a)	(36,055)	(31,362)
Profit for the year		162,066	94,397
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		593	(1,211)
Total comprehensive income for the year		162,659	93,186
Profit attributable to:			
Equity shareholders of the Company		162,067	94,398
Non-controlling interests		(1)	(1)
Profit for the year		162,066	94,397
Total comprehensive income attributable to:			
Equity shareholders of the Company		162,667	93,205
Non-controlling interests		(8)	(19)
Total comprehensive income for the year		162,659	93,186
Earnings per share (RMB)			
Basic	11(a)	0.488	0.294
Diluted	11(b)	0.473	0.282

The notes on pages 57 to 135 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 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment, net	12	375,622	119,579
Construction in progress	13	412	146,197
Intangible assets	14	1,160	1,067
Lease prepayments	15	60,470	61,779
Deferred tax assets	25(b)	11,383	7,700
Total non-current assets		449,047	336,322
Current assets			
Inventories	17	55,082	42,518
Trade and other receivables	18(a)	177,672	87,037
Available-for-sale financial assets	19	80,000	97,000
Restricted cash	20	15,803	36,000
Cash and cash equivalents	20	187,840	169,429
Total current assets		516,397	431,984
Current liabilities			
Secured bank loan	21	—	36,000
Trade and other payables	22	136,577	58,730
Current portion of preferred shares	23	10,683	9,892
Income tax payable	25(a)	13,394	18,022
Total current liabilities		160,654	122,644
Net current assets		355,743	309,340
Total assets less current liabilities		804,790	645,662
Non-current liabilities			
Deferred income	26	9,337	36,570
Preferred shares	23	42,946	44,747
Total non-current liabilities		52,283	81,317
NET ASSETS		752,507	564,345

The notes on pages 57 to 135 form part of these financial statements.

Consolidated Statement of Financial Position *(continued)*

at 31 December 2014

	Note	2014 RMB'000	2013 <i>RMB'000</i>
CAPITAL AND RESERVES			
Share capital	28(c)	2,969	2,961
Reserves	28(d)	749,487	561,325
Total equity attributable to equity shareholders of the Company		752,456	564,286
Non-controlling interests		51	59
TOTAL EQUITY		752,507	564,345

Approved and authorised for issue by the board of directors on 19 March 2015.

Zhao Yan
Director

Jin Xuekun
Director

The notes on pages 57 to 135 form part of these financial statements.

Statement of Financial Position

at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Investments in subsidiaries	16	32,641	32,530
Other receivables	18(b)	66,652	43,582
Total non-current assets		99,293	76,112
Current assets			
Other receivables	18(a)	129	48
Cash and cash equivalents	20	9,884	41,010
Total current assets		10,013	41,058
Current liabilities			
Amounts due to subsidiaries	22	1,358	1,353
Accrued expenses and other payables	22	392	496
Total current liabilities		1,750	1,849
Net current assets		8,263	39,209
NET ASSETS		107,556	115,321
CAPITAL AND RESERVES			
Share capital	28(a)	2,969	2,961
Reserves	28(a)	104,587	112,360
TOTAL EQUITY		107,556	115,321

Approved and authorised for issue by the board of directors on 19 March 2015.

Zhao Yan
Director

Jin Xuekun
Director

The notes on pages 57 to 135 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Warrant reserve	Exchange reserve	Other reserve	Retained earnings		
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2013	2,801	50,187	33,450	246	(2,721)	21,392	271,537	78	376,970
Changes in equity for 2013:									
Profit for the year	—	—	—	—	—	—	94,398	(1)	94,397
Other comprehensive income	—	—	—	—	(1,193)	—	—	(18)	(1,211)
Total comprehensive income for the year	—	—	—	—	(1,193)	—	94,398	(19)	93,186
Equity settled share-based transactions	—	—	—	—	—	57,285	—	—	57,285
Appropriation to statutory reserve	—	—	10,997	—	—	—	(10,997)	—	—
Shares issued on the exercise of warrants	160	42,033	—	(246)	—	—	—	—	41,947
Dividends for the year ended 31 December 2012	—	—	—	—	—	—	(5,043)	—	(5,043)
	160	42,033	10,997	(246)	—	57,285	(16,040)	—	94,189
Balance at 31 December 2013	2,961	92,220	44,447	—	(3,914)	78,677	349,895	59	564,345

The notes on pages 57 to 135 form part of these financial statements.

Consolidated Statement of Changes in Equity *(continued)*

for the year ended 31 December 2014

Attributable to equity shareholders of the Company									
Share capital	Share premium	Statutory reserve	Warrant reserve	Exchange reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2,961	92,220	44,447	—	(3,914)	78,677	349,895	564,286	59	564,345
—	—	—	—	—	—	162,067	162,067	(1)	162,066
—	—	—	—	600	—	—	600	(7)	593
—	—	—	—	600	—	162,067	162,667	(8)	162,659
—	—	—	—	—	26,549	—	26,549	—	26,549
—	—	16,745	—	—	—	(16,745)	—	—	—
8	5,088	—	—	—	(1,182)	—	3,914	—	3,914
—	—	—	—	—	—	(4,960)	(4,960)	—	(4,960)
8	5,088	16,745	—	—	25,367	(21,705)	25,503	—	25,503
2,969	97,308	61,192	—	(3,314)	104,044	490,257	752,456	51	752,507

Note

Balance at 1 January 2014

Changes in equity for 2014:

Profit for the year

Other comprehensive income

Total comprehensive income for the year

Equity settled share-based transactions

Appropriation to statutory reserve

Shares issued on the exercise of share options

granted under share option scheme

Dividends for the year ended

31 December 2013

Balance at 31 December 2014

24

28(b)

The notes on pages 57 to 135 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operations	20(b)	180,991	179,943
PRC income tax paid		(44,366)	(25,422)
Interest received on cash at bank		848	806
Net cash generated from operating activities		137,473	155,327
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress and intangible assets		(118,449)	(114,127)
Government grants received		4,550	30,800
Proceeds from disposal of property, plant and equipment		—	26
Net disposal/(acquisition) of available-for-sale financial assets		17,000	(52,000)
Decrease/(increase) in restricted cash		20,197	(35,745)
Investment income received from available-for-sale financial assets		5,280	3,404
Net cash used in investing activities		(71,422)	(167,642)
Financing activities			
Proceeds from exercise of warrants		—	41,947
Proceeds from exercise of share options		3,914	—
Proceeds from bank loans		—	36,000
Repayment of bank loans		(36,000)	—
Interests paid on bank loans		(735)	(933)
Dividends paid on preferred shares		(9,892)	(9,159)
Dividends paid to equity shareholders of the Company		(4,960)	(5,043)
Net cash (used in)/generated from financing activities		(47,673)	62,812
Net increase in cash and cash equivalents		18,378	50,497
Cash and cash equivalents at 1 January		169,429	120,810
Effect of foreign exchange rate changes		33	(1,878)
Cash and cash equivalents at 31 December	20(a)	187,840	169,429

The notes on pages 57 to 135 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"), Beijing Bloomage Hyinc Technology Company Limited ("Beijing Bloomage Hyinc") and Shandong Bloomage Hyinc Biopharm Company Limited ("Shandong 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 2014 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"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The 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 improvements to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries.

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

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

The preparation of these consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on these consolidated financial statements and major sources of estimation uncertainty are discussed in Note 3.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of Bloomage Biopharm, Beijing Bloomage Hyinc and Shandong 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 the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC 21, *Levies*

Notes to the Financial Statements

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 IFRS 10, IFRS 12 and IAS 27, *Investment entities*

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to IAS 32, *Offsetting financial assets and financial liabilities*

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on these financial statements as the Group has not offsetted any financial assets nor financial liabilities.

Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit ("CGU") whose recoverable amount is based on fair value less costs of disposal. These amendments do not have an impact on these financial statements as the Group did not have any impaired non-financial assets as at 31 December 2014.

Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*

The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group does not have any derivatives.

IFRIC 21, *Levies*

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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)).

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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Leased assets *(continued)*

(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.

(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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

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

- 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 equity 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 in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

Notes to the Financial Statements

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 (including those settled by the controlling shareholder) 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 (including those settled by the controlling shareholder) 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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(b) Impairment for bad and doubtful debts

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

(c) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into the account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(d) Withholding tax

Withholding tax is recognised on profits of 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.

Notes to the Financial Statements

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.

	2014	2013
	RMB'000	RMB'000
HA raw materials	320,286	286,634
HA end products	160,012	86,759
Others	1,003	1,787
	481,301	375,180

The Group's customer base is diversified and includes no customer (2013: one customer) with whom transactions have exceeded 10% of the Group's revenues. In 2013, revenues from sales of bio-chemical products to this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately RMB 43,012,000 and arose in both domestic sales and overseas sales. Details of concentrations of credit risk arising from the largest customer and the five largest customers are set out in Note 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 2014, 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.

Notes to the Financial Statements

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 2014 and the reconciliation of reportable segment revenues and profit or loss are set out below.

	Year ended 31 December 2014				Total <i>RMB'000</i>
	Domestic	Overseas			
	<i>RMB'000</i>	Asia <i>RMB'000</i>	Americas <i>RMB'000</i>	Others <i>RMB'000</i>	
HA raw materials and others	235,931	28,467	37,410	19,481	321,289
HA end products	158,613	279	236	884	160,012
Turnover	394,544	28,746	37,646	20,365	481,301
Segment results	322,410	16,909	20,279	13,168	372,766
Unallocated income and expenses					(165,028)
Profit from operations					207,738
Finance costs					(9,617)
Income tax					(36,055)
Profit for the year					162,066

Notes to the Financial Statements

4 TURNOVER AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

	Year ended 31 December 2013				Total RMB'000
	Domestic	Overseas			
	RMB'000	Asia RMB'000	Americas RMB'000	Others 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	<u>285,126</u>	<u>43,209</u>	<u>31,643</u>	<u>15,202</u>	<u>375,180</u>
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					<u>94,397</u>

5 OTHER REVENUE

	Note	2014 RMB'000	2013 RMB'000
Government grants	(a)	3,992	6,002
Interest income on cash at bank		848	806
Investment income on available-for-sale financial assets		5,280	3,404
Rental income		2,331	2,381
Others		528	374
		<u>12,979</u>	<u>12,967</u>

Notes to the Financial Statements

5 OTHER REVENUE *(continued)*

(a) Government grants

The grants represented incentives and awards of RMB 3,992,000 which were mainly in relation to the Group's technical achievement on the research and development of HA products during the year ended 31 December 2014 (2013: incentives and awards of RMB 6,002,000 mainly in relation to the Group's technical achievement on research and development of HA products and 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

	2014 RMB'000	2013 <i>RMB'000</i>
Interest on bank loan	735	933
Dividends on preferred shares (Note 23)	8,882	9,050
	9,617	9,983

(b) Staff costs

	2014 RMB'000	2013 <i>RMB'000</i>
Salaries, wages and other benefits	66,468	51,203
Contributions to defined contribution retirement plan	5,619	4,450
Equity-settled share-based payment expenses		
– share option scheme (Note 24(i))	15,907	10,463
– warrants granted to a director (Note 24(ii))	—	46,822
– group share-based payment transaction settled by the controlling shareholder (Note 24(iii))	10,642	—
	98,636	112,938

Notes to the Financial Statements

6 PROFIT BEFORE TAXATION *(continued)*

(b) Staff costs *(continued)*

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% (2013: 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.

(c) Other items

	<i>Note</i>	2014 RMB'000	2013 <i>RMB'000</i>
Amortisation			
– intangible assets		220	143
– lease prepayments		1,309	1,309
Auditors' remuneration		1,327	1,026
Depreciation		13,891	12,619
Net foreign exchange loss		580	1,282
Net loss on disposal of property, plant and equipment		3	34
Rental income		(2,331)	(2,381)
Operating lease charges in respect of leased property, plant and equipment		7,060	6,841
Cost of inventories	(i)	105,904	75,321
Research and development costs	(ii)	15,655	15,153

Notes to the Financial Statements

6 PROFIT BEFORE TAXATION *(continued)*

(c) Other items *(continued)*

- (i) Cost of inventories for the year ended 31 December 2014 included RMB 27,973,000 (2013: RMB 25,810,000) 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 2014 included RMB 8,023,000 (2013: RMB 7,709,000) 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:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Current tax - PRC income tax		
Provision for the year (Note 25(a))	39,226	39,919
Under/(over)-provision in respect of prior year (Note 25(a))	512	(184)
Deferred tax		
Origination and reversal of temporary differences (Note 25(b))	(3,683)	(8,373)
	36,055	31,362

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

	<i>Note</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Profit before taxation		198,121	125,759
Expected tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	(i) and (v)	55,121	46,475
Tax effect of tax concession	(ii)	(24,501)	(18,822)
Tax effect of non-deductible expenses	(iii)	3,373	3,138
Tax effect of unused tax losses not recognised (Note 25(d))		1,686	98
Effect of withholding tax on the distributable profit of Bloomage Biopharm (Note 25(b))	(iv)	—	1,227
Utilisation of previous years' unrecognised tax losses		(136)	(570)
Under/(over)-provision in respect of prior year		512	(184)
Income tax		36,055	31,362

Notes to the Financial Statements

7 INCOME TAX *(continued)*

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

- (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 Han Zi (2014) No.136] 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 2014, 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 2014 to 31 December 2016. As a result, the applicable PRC income tax rate of Bloomage Biopharm for 2014 is 15% (2013: 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 dividends derived from sources in the PRC ("withholding tax").

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

During the year ended 31 December 2013, tax expenses of RMB 1,227,000 were charged to profit or loss that represented the effect of withholding tax on the profits declared by Bloomage Biopharm to Tactful during the year. As the Company controls the dividend policy of Bloomage Biopharm and it has been determined that no profits of Bloomage Biopharm have been declared for 2014/will be distributed in the foreseeable future, no tax expenses have been recognised during the year ended 31 December 2014 in respect of the withholding tax that would be payable on the distribution of the distributable profits of 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 2014.

Notes to the Financial Statements

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014						Total RMB'000
	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Subtotal RMB'000	Equity-settled share-based payments (note) RMB'000	
<i>Chairman</i>							
Zhao Yan	118	—	—	—	118	—	118
<i>Executive directors</i>							
Jin Xuekun	480	3,620	180	40	4,320	19,970	24,290
Liu Aihua	158	396	355	23	932	600	1,532
Wang Aihua	158	334	104	21	617	186	803
<i>Non-executive directors</i>							
Guo Jiajun	79	—	—	—	79	192	271
<i>Independent non-executive directors</i>							
Qin Bin (resigned on 28 February 2014)	11	—	—	—	11	—	11
Zhan Lili	109	—	—	—	109	—	109
Zhang Fuping (resigned on 28 February 2014)	11	—	—	—	11	—	11
Li Junhong (appointed on 28 February 2014)	99	—	—	—	99	—	99
Hai Wen (appointed on 28 February 2014)	132	—	—	—	132	—	132
	1,355	4,350	639	84	6,428	20,948	27,376

Notes to the Financial Statements

8 DIRECTORS' REMUNERATION (continued)

	2013						
	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Subtotal RMB'000	Equity- settled share- based payments (note) RMB'000	Total RMB'000
<i>Chairman</i>							
Zhao Yan	120	—	—	—	120	—	120
<i>Executive directors</i>							
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
<i>Non-executive directors</i>							
Guo Jiajun	80	—	—	—	80	542	622
<i>Independent non-executive directors</i>							
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
Li Junhong (appointed on 28 February 2014)	—	—	—	—	—	—	—
Hai Wen (appointed on 28 February 2014)	—	—	—	—	—	—	—
	<u>1,063</u>	<u>1,408</u>	<u>491</u>	<u>54</u>	<u>3,016</u>	<u>50,031</u>	<u>53,047</u>

Notes to the Financial Statements

8 DIRECTORS' REMUNERATION *(continued)*

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, two of them (2013: three) are directors of the Company whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2013: two) individuals of the Group are as follows:

	2014	2013
	RMB'000	RMB'000
Basic salaries, allowances and other emoluments	2,053	632
Bonus	753	750
Contributions to retirement benefit schemes	81	44
Equity settled share-based transaction expenses	1,261	2,267
	4,148	3,693

The emoluments of the three (2013: two) individuals with the highest emoluments are within the following bands:

	2014	2013
HKD 1,500,001 ~ HKD 2,000,000	2	1
HKD 2,000,001 ~ HKD 2,500,000	1	—
HKD 3,000,001 ~ HKD 3,500,000	—	1

Notes to the Financial Statements

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB 33,637,000 (2013: RMB 59,243,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year (Note 28(a)):

	2014 RMB'000	2013 RMB'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	(33,637)	(59,243)

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 2014 of RMB 162,067,000 (2013: RMB 94,398,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2014 of 332,172,000 shares (2013: 321,027,000 ordinary shares), calculated as follows:

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

	2014 '000	2013 '000
Issued ordinary shares at 1 January	332,000	312,000
Effect of exercise of unlisted warrants (Note 27)	—	9,027
Effect of exercise of share options granted under share option scheme	172	—
Weighted average number of ordinary shares (basic) at 31 December	332,172	321,027

Notes to the Financial Statements

11 EARNINGS PER SHARE *(continued)*

(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 162,067,000 (2013: RMB 94,398,000) and the weighted average number of ordinary shares of 342,511,000 shares (2013: 334,933,000 ordinary shares), calculated as follows:

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

	2014	2013
	'000	'000
Weighted average number of ordinary shares at 31 December	332,172	321,027
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)	10,339	6,915
Effect of exercise of unlisted warrants (Note 27)	—	6,991
Weighted average number of ordinary shares (diluted) at 31 December	<u>342,511</u>	<u>334,933</u>

Notes to the Financial Statements

12 PROPERTY, PLANT AND EQUIPMENT, NET

	The Group				Total RMB'000
	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	
Cost:					
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
Disposal	—	(44)	(164)	(199)	(407)
At 31 December 2013	79,859	90,436	3,737	6,652	180,684
At 1 January 2014	79,859	90,436	3,737	6,652	180,684
Additions	—	51	138	3,106	3,295
Transferred from construction in progress (Note 13)	206,016	86,396	—	5,030	297,442
Deduction of government grants received	(30,800)	—	—	—	(30,800)
Disposal	—	(40)	—	—	(40)
At 31 December 2014	255,075	176,843	3,875	14,788	450,581
Accumulated depreciation:					
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
At 1 January 2014	21,139	34,856	1,752	3,358	61,105
Charge for the year	3,580	7,934	554	1,823	13,891
Written back on disposal	—	(37)	—	—	(37)
At 31 December 2014	24,719	42,753	2,306	5,181	74,959
Net book value:					
At 31 December 2013	58,720	55,580	1,985	3,294	119,579
At 31 December 2014	230,356	134,090	1,569	9,607	375,622

Notes to the Financial Statements

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

The Group's property, plant and equipment are mainly located in the PRC. As at 31 December 2014, property certificates of certain properties of the Group with an aggregate net book value of RMB 181,387,000 (31 December 2013: RMB 6,462,000) 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 as 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	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	146,197	27,950
Additions	151,657	126,010
Transferred to property, plant and equipment (Note 12)	(297,442)	(7,763)
At 31 December	412	146,197

Notes to the Financial Statements

14 INTANGIBLE ASSETS

	The Group	
	2014	2013
	RMB'000	RMB'000
Cost:		
At 1 January	1,733	1,385
Additions	313	348
At 31 December	2,046	1,733
Accumulated amortisation:		
At 1 January	666	523
Charge for the year	220	143
At 31 December	886	666
Net book value:		
At 31 December	1,160	1,067

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

Notes to the Financial Statements

15 LEASE PREPAYMENTS

	The Group	
	2014	2013
	RMB'000	RMB'000
Cost:		
At 1 January	65,443	65,443
Additions	—	—
At 31 December	65,443	65,443
Accumulated amortisation:		
At 1 January	3,664	2,355
Charge for the year	1,309	1,309
At 31 December	4,973	3,664
Net book value:		
At 31 December	60,470	61,779

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.

Notes to the Financial Statements

16 INVESTMENTS IN SUBSIDIARIES

Unlisted shares, at cost

The Company	
2014	2013
RMB'000	RMB'000
32,641	32,530

Details of the subsidiaries at 31 December 2014 are set out below:

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid-up capital	Effective percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Valuerank Holdings Limited ("Valuerank")	British Virgin Islands ("BVI")	United States Dollars ("USD") 1	100%	—	Investment holding
Farstar Enterprises Limited ("Farstar")	BVI	USD 100	100%	—	Investment holding
Tactful	Hong Kong	1 share	—	100%	Investment holding
Fumax Investment Limited	Hong Kong	1 share	—	100%	Investment holding
Bloomage Biopharm (Note i)	PRC	RMB 88,800,000	—	100%	Production and sale of bio-chemical products
Plumoon Company Limited	Japan	Japanese Yen ("JPY") 12,000,000	—	91%	Sale of bio-chemical products
Beijing Bloomage Hyinc*	PRC	RMB 20,000,000	—	100%	Sales of bio-chemical products and medical instrument
Shandong Bloomage Hyinc*	PRC	RMB 200,000,000	—	100%	Production and development of bio-chemical products
Bloomage Freda Biopharm USA Inc.	United States	USD 2,000	—	100%	Development, distribution and sales of bio-chemical products and medical instruments
Beijing Bloomage Hengmei Shang Mao Co., Ltd.**	PRC	RMB 1,000,000	—	100%	Sales of beauty products

Notes to the Financial Statements

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

* Wholly foreign owned enterprises established under the PRC law.

** Limited liability company established under the PRC law.

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	
	2014	2013
	RMB'000	RMB'000
Raw materials and consumables	12,250	6,414
Work in progress	8,514	5,736
Finished goods	34,318	30,368
	55,082	42,518

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

	The Group	
	2014	2013
	RMB'000	RMB'000
Carrying amount of inventories sold	105,904	75,321

Notes to the Financial Statements

18 TRADE AND OTHER RECEIVABLES

(a) Current trade and other receivables

	The Group		The Company	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade receivables from:				
– Third parties	85,525	54,665	—	—
– Related parties	140	—	—	—
Bills receivable	72,597	19,391	—	—
Prepayments and other receivables from:				
– Third parties	17,087	10,797	129	48
– Related parties	2,323	2,184	—	—
	177,672	87,037	129	48

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	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 3 months	137,736	57,909
3 to 6 months	10,880	11,356
6 to 9 months	8,463	4,715
Over 9 months	1,183	76
	158,262	74,056

Notes to the Financial Statements

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	
	2014	2013
	RMB'000	RMB'000
Current	140,562	65,448
1 to 3 months overdue	8,054	7,542
3 to 6 months overdue	8,463	1,066
6 months to 1 year overdue	1,183	—
	158,262	74,056

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 2014, the Group has no impairment losses on trade and other receivables (31 December 2013: 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.

Notes to the Financial Statements

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2014, 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	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Cash at bank and in hand	203,643	205,429	9,884	41,010
Less: restricted cash (i)	15,803	36,000	—	—
Cash and cash equivalents	187,840	169,429	9,884	41,010

- (i) At 31 December 2014, restricted cash represents deposits placed with a bank for the issue of bankers' acceptance bills. At 31 December 2013, restricted cash represents time deposit placed with a bank that is secured for obtaining a bank loan 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.

Notes to the Financial Statements

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

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

	2014	2013
	RMB'000	RMB'000
Profit before taxation	198,121	125,759
Adjustments for:		
Amortisation of intangible assets	220	143
Amortisation of lease prepayments	1,309	1,309
Depreciation	13,891	12,619
Dividends on preferred shares	8,882	9,050
Equity settled share-based payment expenses (Note 24)	26,549	57,285
Interest income on cash at bank	(848)	(806)
Investment income on available-for-sale financial assets	(5,280)	(3,404)
Net loss on disposal of property, plant and equipment	3	34
Interests on bank loans	735	933
Changes in working capital:		
Increase in inventories	(12,564)	(9,796)
Increase in trade and other receivables	(88,798)	(25,923)
Increase in trade and other payables	38,771	12,740
Cash generated from operations	180,991	179,943

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.

Notes to the Financial Statements

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade payables	14,913	8,751	—	—
Bills payables	15,803	—	—	—
Payables for construction of plant and purchase of equipment	59,707	37,136	—	—
Receipts in advance	25,358	759	—	—
Value added tax payable	7,872	4,848	—	—
Other payables due to related parties	570	34	—	—
Amounts due to subsidiaries	—	—	1,358	1,353
Accrued expenses and other payables	12,354	7,202	392	496
	136,577	58,730	1,750	1,849

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 and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 3 months	9,979	8,621
3 to 6 months	19,310	130
6 to 12 months	1,427	—
	30,716	8,751

The maturity analysis of trade and bills payables is as follows:

	The Group	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Due within 1 month or on demand	30,716	8,751

Notes to the Financial Statements

23 PREFERRED SHARES

	The Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	54,639	54,748
Dividends during the year	8,882	9,050
Payment of dividends of preferred shares	(9,892)	(9,159)
	53,629	54,639
Less: current portion of preferred shares	(10,683)	(9,892)
	42,946	44,747

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.

Notes to the Financial Statements

23 PREFERRED SHARES *(continued)*

Pursuant to a board resolution dated 29 March 2006, with the agreement from SFP, the expiry date of the CJV has been changed. According to the revised arrangement, the preferred shares were redeemable by Valuerank, subject to the consensus of SFP, at any subsequent date on or before the earlier of the termination of business in 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.

(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	
	2014	2013
	RMB'000	RMB'000
Within 1 year	10,683	9,892
After 1 year but within 5 years	33,165	30,708
After 5 years	9,781	14,039
	53,629	54,639

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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 instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 24 December 2012	1,940,000	One year from the date of grant	5 years
– on 24 December 2012	1,940,000	Two years from the date of grant	5 years
– 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 ended 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

Notes to the Financial Statements

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 instruments	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 ended 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		

Notes to the Financial Statements

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:

	2014		2013	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	HKD 9.85	22,440,000	HKD 4.422	12,480,000
Granted during the year	not applicable	—	HKD 16.652	9,960,000
Exercised during the year	HKD 4.422	(1,124,000)	not applicable	—
Outstanding at the end of the year	<u>HKD 10.137</u>	<u>21,316,000</u>	<u>HKD 9.85</u>	<u>22,440,000</u>
Exercisable at the end of the year	<u>HKD 6.621</u>	<u>13,846,000</u>	<u>HKD 4.422</u>	<u>6,240,000</u>

The options outstanding at 31 December 2014 had an exercise price of HKD 4.422 or HKD 16.652 (2013: HKD 4.422 or HKD 16.652) and a weighted average remaining contractual life of 3.4 years (2013: 4.4 years).

Notes to the Financial Statements

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.

	Share options granted in 2013	Share options granted in 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.

Notes to the Financial Statements

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 of RMB 46,822,000 were charged to profit or loss immediately in 2013.

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			

Notes to the Financial Statements

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

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

(b) The number and exercise price of the Warrants are as follows:

	2014		2013	
	Exercise price	Number of warrants	Exercise price	Number of warrants
Outstanding at the end of the year	<u>HKD 16.652</u>	<u>16,600,000</u>	<u>HKD 16.652</u>	<u>16,600,000</u>
Exercisable at the end of the year	<u>HKD 16.652</u>	<u>4,150,000</u>	<u>HKD 16.652</u>	<u>—</u>

The Warrants outstanding as at 31 December 2014 had an exercise price of HKD 16.652 (2013: HKD 16.652) and a weighted average remaining contractual life of 4 years (2013: 5 years).

Notes to the Financial Statements

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

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

(c) Fair value of Warrants and assumptions

In 2013, the fair value of services received in return for the Warrants granted was measured by reference to the fair value of the Warrants. The estimate of the fair value of the Warrants was measured based on the Black-Scholes Model. The contractual life of the Warrants was used as an input into this model. Expectations of early exercise were incorporated into Black-Scholes Model.

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 was 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 were 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.

Notes to the Financial Statements

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

(iii) Group share-based payment transaction settled by the controlling shareholder

On 22 May 2014, AIM First Investments Limited (“AFI”, the controlling shareholder of the Company), Ms. Zhao Yan (as warrantor for AFI), Wealthy Delight Group Limited (“Wealthy Delight”) and Mr. Jin (as warrantor for Wealthy Delight) entered into an option agreement (the “Option Agreement”). Pursuant to the Option Agreement, AFI granted a call option (the “AFI Call Option”) to Wealthy Delight for the purchase of 9,960,000 shares of the Company (the “Option Shares”) held by AFI. The AFI Call Option is exercisable from 22 May 2014 to 22 May 2019 at HK\$5.80 per share (the “Transfer Price”). Also, pursuant to the same Option Agreement, Wealthy Delight granted a call option to AFI to require Wealthy Delight to transfer the Option Shares or any part thereof held by Wealthy Delight to AFI at the Transfer Price on the condition that AFI Call Option has been exercised by Wealthy Delight and Mr. Jin resigns as the chief executive officer of the Company due to personal reasons. The call option granted by Wealthy Delight to AFI is exercisable from the completion date of the transfer of the relevant Option Shares under the AFI Call Option to 22 May 2019. The Transfer Price and/or the number of the Option Shares are subject to adjustment upon any consolidation or subdivision of shares of the Company during the term of the Option Agreement. The arrangements under the Option Agreement are to provide incentive to Mr. Jin to remain as the chief executive officer of the Company.

This transaction is accounted for as a group share-based payment transaction settled by the controlling shareholder and AFI Call Option is treated as vesting in a five-year period, i.e. the fair value of this share-based payment transaction of HKD 110,656,000 is amortised over the 5 years using the straight-line method. During the year ended 31 December 2014, expenses related to this group share-based payment transaction of RMB 10,642,000 have been recognised in profit or loss.

Notes to the Financial Statements

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

(iii) Group share-based payment transaction settled by the controlling shareholder *(continued)*

(a) Fair value of share options and assumptions

The fair value of services received in return for the AFI Call Option is measured by reference to the fair value of share options granted. The estimate of the fair value of the AFI Call Option is measured based on Black-Scholes Model. The contractual life of the AFI Call Option is used as an input into this model.

Fair value at measurement date	HKD 11.11
Share price	HKD 18.96
Exercise price	HKD 5.80
Expected volatility	35.0%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	1.195%

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.

The AFI Call Option was granted under service condition. The service condition has 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 AFI Call Option.

Notes to the Financial Statements

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	The Group	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Balance of PRC income tax relating to prior years	18,022	3,709
Provision for PRC income tax for the year (Note 7(a))	39,226	39,919
Under/(over)-provision in respect of prior year	512	(184)
PRC income tax paid	<u>(44,366)</u>	<u>(25,422)</u>
	<u>13,394</u>	<u>18,022</u>

(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	Unrealised profit on intra-group transactions	Total
At 1 January 2013	—	(673)	—	(673)
Credited to profit or loss	<u>7,700</u>	<u>673</u>	<u>—</u>	<u>8,373</u>
At 31 December 2013	<u>7,700</u>	<u>—</u>	<u>—</u>	<u>7,700</u>
At 1 January 2014	7,700	—	—	7,700
Credited to profit or loss	<u>963</u>	<u>—</u>	<u>2,720</u>	<u>3,683</u>
At 31 December 2014	<u>8,663</u>	<u>—</u>	<u>2,720</u>	<u>11,383</u>

Notes to the Financial Statements

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	
	2014	2013
	RMB'000	RMB'000
Deferred tax assets recognised in the consolidated statement of financial position	11,383	7,700

(c) Deferred tax liabilities not recognised:

As at 31 December 2014, temporary differences relating to the undistributed profits of Bloomage Biopharm amounted to RMB 395,163,000 (31 December 2013: RMB 208,689,000). Deferred tax liabilities of RMB 19,758,000 (31 December 2013: RMB 10,434,000) 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 10,069,000 (31 December 2013: RMB 3,869,000) 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 2019.

Notes to the Financial Statements

26 DEFERRED INCOME

Deferred income represents 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. During the year ended 31 December 2014, government grants related to the construction of the HA production facilities of RMB 30,800,000 was transferred out to reduce the carrying amounts of relevant assets.

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, 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).

Notes to the Financial Statements

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 <i>RMB'000</i>	Share premium <i>RMB'000</i>	Contributed surplus <i>RMB'000</i>	Warrant reserve <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Other reserve <i>RMB'000</i>	Retained earnings/ (accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>
	28(c)	28(d)(i)	(i) below	27,28(d)(iii)	28(d)(iv)	28(d)(v)		
Balance at 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	<u>2,961</u>	<u>92,220</u>	<u>36,966</u>	<u>—</u>	<u>(10,197)</u>	<u>57,467</u>	<u>(64,096)</u>	<u>115,321</u>
Changes in equity for 2014:								
Loss for the year	—	—	—	—	—	—	(33,637)	(33,637)
Other comprehensive income	—	—	—	—	369	—	—	369
Total comprehensive income for the year	—	—	—	—	369	—	(33,637)	(33,268)
Equity settled share-based transactions	—	—	—	—	—	26,549	—	26,549
Share issued on the exercise of share options granted under share option scheme	8	5,088	—	—	—	(1,182)	—	3,914
Dividends for the year ended 31 December 2013	—	—	—	—	—	—	(4,960)	(4,960)
Balance at 31 December 2014	<u>2,969</u>	<u>97,308</u>	<u>36,966</u>	<u>—</u>	<u>(9,828)</u>	<u>82,834</u>	<u>(102,693)</u>	<u>107,556</u>

Notes to the Financial Statements

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 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

	2014	2013
	RMB'000	RMB'000
Final dividends proposed after the end of the reporting period of HKD 2.5 cents per ordinary share (2013: HKD 1.9 cents per ordinary share)	6,570	4,960

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

	2014	2013
	RMB'000	RMB'000
Final dividends in respect of the previous financial year, approved and paid during the year, of HKD 1.9 cents per ordinary share (2013: HKD 2.0 cents per ordinary share)	4,960	5,043

Notes to the Financial Statements

28 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital

(i) Authorised and issued share capital

	2014		2013	
	<i>No. of shares</i>	<i>HKD'000</i>	<i>No. of shares</i>	<i>HKD'000</i>
Authorised:				
Ordinary shares of HKD 0.01 each	<u>1,000,000,000</u>	<u>10,000</u>	<u>1,000,000,000</u>	<u>10,000</u>
	2014		2013	
	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>
Issued and fully paid:				
At 1 January	332,000,000	2,961	312,000,000	2,801
Shares issued on exercise of warrants (Note 27)	—	—	20,000,000	160
Shares issued on exercise of share options granted under share option scheme	<u>1,124,000</u>	<u>8</u>	—	—
At 31 December	<u>333,124,000</u>	<u>2,969</u>	<u>332,000,000</u>	<u>2,961</u>

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.

Notes to the Financial Statements

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	2014 Number of options/ warrants	2013 Number of options/ warrants
25 December 2013 to 24 December 2017	HKD 4.422	5,116,000	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	830,000
30 October 2015 to 29 October 2018	HKD 16.652	830,000	830,000
30 October 2016 to 29 October 2018	HKD 16.652	830,000	830,000
30 October 2017 to 29 October 2018	HKD 16.652	830,000	830,000
23 December 2014 to 22 December 2018	HKD 16.652	1,660,000	1,660,000
23 December 2015 to 22 December 2018	HKD 16.652	1,660,000	1,660,000
23 December 2016 to 22 December 2018	HKD 16.652	1,660,000	1,660,000
23 December 2017 to 22 December 2018	HKD 16.652	1,660,000	1,660,000
27 December 2014 to 26 December 2018	HKD 16.652	4,150,000	4,150,000
27 December 2015 to 26 December 2018	HKD 16.652	4,150,000	4,150,000
27 December 2016 to 26 December 2018	HKD 16.652	4,150,000	4,150,000
27 December 2017 to 26 December 2018	HKD 16.652	4,150,000	4,150,000
		<u>37,916,000</u>	<u>39,040,000</u>

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.

Notes 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.

Notes to the Financial Statements

28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

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

(v) Other reserve

Other reserve as at 31 December 2014 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).

Notes to the Financial Statements

28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(e) Distributability of reserves

At 31 December 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB 104,587,000 (31 December 2013: RMB 112,360,000), 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 2.5 cents per ordinary share (2013: HKD 1.9 cents per ordinary share), amounting to HKD 8,328,000 (equivalent to RMB 6,570,000) (2013: HKD 6,308,000 (equivalent to RMB 4,960,000)). This dividend has not been recognised as a liability at the end of the reporting period.

(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 2014, the debt-to-equity ratio of the Group was 6% (31 December 2013: 13%), and the liability-to-asset ratio of the Group was 22% (31 December 2013: 27%).

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.

Notes to the Financial Statements

29 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

Substantially all of the Group's cash at bank are deposited in the reputable banks, which the management assess the credit risk to be insignificant.

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, 3% (2013: 6%) and 7% (2013: 8%) 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.

Notes to the Financial Statements

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.

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 2014					
	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>	More than 1 year but less than 2 years <i>RMB'000</i>	More than 2 years but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>
Trade and other payables	136,577	136,577	136,577	—	—	—
Preferred shares	53,629	86,921	10,683	11,538	40,454	24,246
	<u>190,206</u>	<u>223,498</u>	<u>147,260</u>	<u>11,538</u>	<u>40,454</u>	<u>24,246</u>

Notes to the Financial Statements

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

(b) Liquidity risk *(continued)*

The Group *(continued)*

	As at 31 December 2013					
	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>	More than 1 year but less than 2 years <i>RMB'000</i>	More than 2 years but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>
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
	<u>149,369</u>	<u>191,636</u>	<u>104,715</u>	<u>10,683</u>	<u>37,457</u>	<u>38,781</u>

The Company

	As at 31 December 2014			As at 31 December 2013		
	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 1 year or on demand <i>RMB'000</i>
Other payables	<u>1,750</u>	<u>1,750</u>	<u>1,750</u>	<u>1,849</u>	<u>1,849</u>	<u>1,849</u>

Notes to the Financial Statements

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

(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.

	2014		2013	
	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 2014, 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 RMB nil (2013: RMB 75,000).

(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.

Notes to the Financial Statements

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

(d) Currency risk *(continued)*

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

	2014 Exposure to Foreign currencies (expressed in RMB)			
	RMB	USD	JPY	Euros
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand and at bank	1,136	6,044	—	3
Trade and other receivables	—	7,558	108	—
Trade and other payables		(6)	—	(63)
Net exposure arising from recognised assets and liabilities	1,136	13,596	108	(60)

Notes to the Financial Statements

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)*

	2013 Exposure to Foreign currencies (expressed in RMB)			
	RMB <i>RMB'000</i>	USD <i>RMB'000</i>	JPY <i>RMB'000</i>	Euros <i>RMB'000</i>
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	<u>(36,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net exposure arising from recognised assets and liabilities	<u>1,120</u>	<u>15,220</u>	<u>643</u>	<u>3</u>

(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.

Notes to the Financial Statements

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

(d) Currency risk *(continued)*

(ii) Sensitivity analysis *(continued)*

	The Group			
	2014		2013	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained earnings RMB'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained earnings RMB'000
RMB	5%	57	5%	88
	(5%)	(57)	(5%)	(88)
USD	5%	578	5%	651
	(5%)	(578)	(5%)	(651)
JPY	5%	5	5%	2
	(5%)	(5)	(5%)	(2)
Euros	5%	(3)	5%	1
	(5%)	3	(5%)	(1)

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.

Notes to the Financial Statements

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 2013.

(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

Notes to the Financial Statements

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 measurements as at 31 December 2014 categorised into			
	Fair value at 31 December 2014 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial assets:				
Available-for-sale financial assets	80,000	—	80,000	—

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

During the years ended 31 December 2013 and 2014, 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 at the end of the reporting period in which they occur.

Notes to the Financial Statements

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 2014.

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.

Amounts due to subsidiaries in the Company's statement of financial position as at 31 December 2014 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 2014 has not been disclosed.

Notes to the Financial Statements

30 COMMITMENTS

- (a) As at 31 December 2014, the Group had capital commitments for construction of property, plant and equipment as follows:

	2014	2013
	RMB'000	RMB'000
Authorised and contracted for	6,190	69,594
Authorised but not contracted for	—	71,842
	6,190	141,436

- (b) As at 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2014	2013
	RMB'000	RMB'000
Within 1 year	7,392	6,829
After 1 year but within 5 years	461	7,250
	7,853	14,079

Notes to the Financial Statements

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 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

(a) Transactions with related parties

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

	2014	2013
	RMB'000	RMB'000
Sales of products to related parties	342	444
Purchase of materials from related parties	13,151	14,767
Dividends on preferred shares paid to SFP	9,892	9,159
Lease of buildings and plant to related parties	2,160	2,284
Rental expense for lease of properties from a related party	6,822	6,638

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.

Notes to the Financial Statements

31 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Balances with related parties:

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

	2014	2013
	RMB'000	RMB'000
Trade and other receivables	2,463	2,184
Trade and other payables	570	2,730
Preferred shares, including current portion	53,629	54,639

(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:

	2014	2013
	RMB'000	RMB'000
Basic salaries, allowances and other emoluments	11,659	5,633
Contributions to retirement benefit schemes	191	121
Equity compensation benefits (see Note 24)	21,888	52,832
	33,738	58,586

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 19 March 2015, the Company declared dividends of HKD 8,328,000 (equivalent to RMB 6,570,000) 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 2014 to be AFI, which is incorporated in BVI.

Notes to the Financial Statements

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 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 19, <i>Defined benefit plans: Employee contributions</i>	1 July 2014
<i>Annual improvements to IFRSs 2010-2012 cycle</i>	1 July 2014
<i>Annual improvements to IFRSs 2011-2013 cycle</i>	1 July 2014
Amendments to IFRS 11, <i>Accounting for acquisitions of interests in joint operations</i>	1 January 2016
Amendments to IAS 16 and IAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
IFRS 15, <i>Revenue from contracts with customers</i>	1 January 2017
IFRS 9, <i>Financial instruments</i>	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap.622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

Group Financial Highlights

	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Turnover	481,301	375,180	274,966	206,064	153,661
Profit from the operation	207,738	135,742	120,848	105,907	85,127
Finance costs	(9,617)	(9,983)	(9,067)	(8,970)	(8,785)
Profit before taxation	198,121	125,759	111,781	96,937	76,342
Income tax	(36,055)	(31,362)	(22,511)	(24,312)	(15,900)
Profit for the year	162,066	94,397	89,270	72,625	60,442
Basic earnings per share (RMB)	0.488	0.294	0.286	0.233	0.194
Diluted earnings per share (RMB)	0.473	0.282	0.285	0.233	0.194
Assets and liabilities					
Non-current assets	449,047	336,322	214,966	127,326	122,459
Current assets	516,397	431,984	259,290	254,870	180,326
Current liabilities	(160,654)	(122,644)	(48,669)	(43,983)	(29,520)
Total assets less current liabilities	804,790	645,662	425,587	338,213	273,265
Non-current liabilities	(52,283)	(81,317)	(48,617)	(47,983)	(49,396)
Net assets	752,507	564,345	376,970	290,230	223,869
Capital and reserves					
Share capital	2,969	2,961	2,801	2,801	2,801
Reserves	749,487	561,325	374,091	287,341	221,068
Total equity attributable to equity shareholders of the Company	752,456	564,286	376,892	290,142	223,869
Non-controlling interests	51	59	78	88	—
Total equity	752,507	564,345	376,970	290,230	223,869