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Bloomage BioTechnology Corporation Limited

華熙生物科技有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00963)

**RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009**

GROUP RESULTS

The board (the “Board”) of directors (the “Directors”) of Bloomage BioTechnology Corporation Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2009, together with comparative figures for the year ended 31 December 2008 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

		2009	2008
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	4	117,190	116,599
Cost of sales		<u>(21,153)</u>	<u>(26,694)</u>
Gross profit		96,037	89,905
Other revenue	5	2,461	4,083
Distribution costs		(9,794)	(11,546)
Administrative expenses		(19,273)	(16,410)
Other operating expenses		<u>(340)</u>	<u>(895)</u>
Profit from operations		69,091	65,137
Finance costs	6(a)	<u>(8,996)</u>	<u>(10,407)</u>
Profit before taxation	6	60,095	54,730
Income tax	7(a)	<u>(9,407)</u>	<u>(10,883)</u>
Profit for the year		<u>50,688</u>	<u>43,847</u>
Other comprehensive income for the year			
Exchange differences on translation of financial statements of foreign operations		(45)	337
Total comprehensive income for the year		<u>50,643</u>	<u>44,184</u>
Basic and diluted earnings per share (RMB)	9	<u>0.16</u>	<u>0.14</u>

CONSOLIDATED BALANCE SHEET
at 31 December 2009

	<i>Note</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment, net	10	101,262	81,776
Construction in progress		630	22,744
Intangible assets		555	619
Lease prepayments		<u>12,125</u>	<u>12,395</u>
Total non-current assets		<u>114,572</u>	<u>117,534</u>
Current assets			
Inventories		12,627	7,660
Trade and other receivables	11	23,114	18,194
Cash and cash equivalents		<u>95,282</u>	<u>71,634</u>
Total current assets		<u>131,023</u>	<u>97,488</u>
Current liabilities			
Secured bank loan	12	—	10,000
Trade and other payables	13	19,171	23,434
Current portion of preferred shares		7,271	6,732
Income tax payable		<u>2,684</u>	<u>2,550</u>
Total current liabilities		<u>29,126</u>	<u>42,716</u>
Net current assets		<u>101,897</u>	<u>54,772</u>
Total assets less current liabilities		<u>216,469</u>	<u>172,306</u>
Non-current liabilities			
Deferred income		1,805	200
Deferred tax liabilities		1,081	1,601
Preferred shares		<u>44,259</u>	<u>42,996</u>
Total non-current liabilities		<u>47,145</u>	<u>44,797</u>
Net assets		<u>169,324</u>	<u>127,509</u>
Capital and reserves			
Share capital		2,801	2,801
Reserves		<u>166,523</u>	<u>124,708</u>
Total equity		<u>169,324</u>	<u>127,509</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Attributable to equity shareholders of the Company						Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	
Balance at 1 January 2008	400	—	738	(21,966)	—	47,189	26,361
Changes in equity for 2008:							
Total comprehensive income for the year	—	—	—	—	337	43,847	44,184
Appropriation to statutory reserve	—	—	5,007	—	—	(5,007)	—
Shares issued under Reorganisation	349	—	—	(349)	—	—	—
Capitalisation of reserve	—	—	—	38,800	—	(38,800)	—
Waiver of amounts due to related parties	—	—	—	4,725	—	—	4,725
Shares issued by placing and public offer	684	67,683	—	—	—	—	68,367
Share issuing expenses	—	(16,128)	—	—	—	—	(16,128)
Capitalisation issue	1,368	(1,368)	—	—	—	—	—
Balance at 31 December 2008	<u>2,801</u>	<u>50,187</u>	<u>5,745</u>	<u>21,210</u>	<u>337</u>	<u>47,229</u>	<u>127,509</u>
Balance at 1 January 2009	2,801	50,187	5,745	21,210	337	47,229	127,509
Changes in equity for 2009:							
Total comprehensive income for the year	—	—	—	—	(45)	50,688	50,643
Appropriation to statutory reserve	—	—	5,196	—	—	(5,196)	—
Dividends for the year ended 31 December 2008	—	—	—	—	—	(8,828)	(8,828)
Balance at 31 December 2009	<u>2,801</u>	<u>50,187</u>	<u>10,941</u>	<u>21,210</u>	<u>292</u>	<u>83,893</u>	<u>169,324</u>

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND GROUP REORGANISATION

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. Its principal subsidiary, Shandong Freda Biopharmaceutical Co., Ltd. (“Freda Biopharm”) (formerly Shangdong Freda Bio-Chemicals Co. Ltd.), is established in the People’s Republic of China (the “PRC”) principally engaging in the manufacture and sale of hyaluronic acid products. The consolidated financial statements of the Company for the year ended 31 December 2009 comprise the Company and its subsidiaries.

The companies comprising the Group underwent reorganisation (the “Reorganisation”) to rationalise the Group’s structure in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). On 10 April 2008, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company date 19 September 2008. The Company’s shares were listed on the Stock Exchange on 3 October 2008.

2 BASIS OF PRESENTATION

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. The consolidated financial statements have been prepared as if the current group structure had been in existence throughout the two years presented, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basis of preparation of the financial statements

These consolidated financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousand. Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (“functional currency”). The functional currency of the Company’s subsidiary in the PRC is RMB.

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis.

4 TURNOVER

The principal activities of the Group are the production and sale of bio-chemical products.

Turnover represents the sales value of goods sold, net of value added tax.

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Hyaluronic acid products	116,257	115,332
Heparin products	455	484
Others	<u>478</u>	<u>783</u>
	<u>117,190</u>	<u>116,599</u>

5 OTHER REVENUE

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	1,261	2,832
Interest income	154	250
Processing fee	—	817
Rental and related property management service income	836	14
Sale of scrap materials	50	106
Others	<u>160</u>	<u>64</u>
	<u>2,461</u>	<u>4,083</u>

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expense on bank borrowings wholly repayable within one year	472	2,171
Less: interest expense capitalised into construction in progress*	(10)	—
Dividends on preferred shares	<u>8,534</u>	<u>8,236</u>
	<u>8,996</u>	<u>10,407</u>

* The borrowing costs have been capitalised at a rate of 8.217% per annum (2008: Nil).

(b) **Staff costs**

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	15,678	13,372
Contributions to defined contribution retirement plan	<u>1,264</u>	<u>798</u>
	<u>16,942</u>	<u>14,170</u>

7 INCOME TAX

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

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax - PRC income tax		
Provision for the year	9,927	9,282
Deferred tax		
Origination and reversal of temporary difference	<u>(520)</u>	<u>1,601</u>
	<u>9,407</u>	<u>10,883</u>

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

		2009	2008
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation		<u>60,095</u>	<u>54,730</u>
PRC income tax expense at a statutory tax rate of 25%	(i)	15,024	13,683
Tax effect of tax concession	(ii)	(6,010)	(5,473)
Tax effect of non-deductible expenses	(iii)	1,780	1,825
Tax effect of non-taxable income	(iii)	—	(109)
Tax credit relating to domestic equipment purchase	(iv)	(1,667)	(644)
Effect of withholding tax at 10% on the distributable profits of Freda Biopharm	(v)/(vi)	1,081	1,601
Effect of withholding tax resulting from a change in tax rate	(vi)	<u>(801)</u>	<u>—</u>
Income tax		<u>9,407</u>	<u>10,883</u>

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

- (ii) Pursuant to the “Advanced and New Technology Enterprise Certificate” (No. GR200837000125) issued to Freda Biopharm and the notice [Lu Ke Gao Zi (2009) No.12] issued by Department of Science & Technology of Shandong Province, Finance Bureau of Shandong Province, National Taxation Bureau of Shandong Province and Local Taxation Bureau of Shandong Province on 5 December 2008 and 16 January 2009 respectively, Freda Biopharm has satisfied certain conditions in the Corporate Income Tax Law of the PRC with effect on 1 January 2008 (“the new tax law”) and was granted the qualification of advanced and new technology enterprise. Freda Biopharm is therefore entitled to a concession on PRC income tax of 10% for three years from 1 January 2008 to 31 December 2010. As a result, the applicable PRC income tax rate of Freda Biopharm for the year ended 31 December 2009 is 15%.
- (iii) The non-deductible expenses primarily represent dividends on the preferred shares and administrative expenses incurred by the Company. The non-taxable income represents the incentive received by Valuerank and Farstar from local government in connection with additional investments (i.e. capitalisation of reserve) in Freda Biopharm during the year ended 31 December 2005 and 2006.
- (iv) Pursuant to the notice “Approval on tax exemption of Shandong Freda Bio-Chemicals Co., Ltd. for equipment purchased in the PRC” [Ji Guo Shui Gao Kai Han (2007) No.33] issued by the National Taxation Bureau of Jinan High Technology Industry Development Area, and the relevant tax rules and regulations of the PRC, Freda Biopharm was granted income tax credit for qualified domestic equipment purchased in 2007.
- (v) Pursuant to the new tax law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment of a place of business in the PRC, are subject to withholding income tax at the rate of 10% (unless reduced by treaty) on various types of passive income including dividends derived from sources in the PRC.
- (vi) According to the requirements of the “Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income”, 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 holds 25% of equity interests or more of the Chinese company directly.

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

Pursuant to the notice “Interpretation and Determination of Beneficial Owner Under Tax Treaties” [Guo Shui Han (2009) No. 601] issued by the State Administration of Taxation of 27 October 2009, it is a requirement under tax treaties concluded between PRC and other jurisdictions that the recipient of dividend, interest and royalty income must be the beneficial owner of such income to enjoy reduced rates of withholding tax on such income paid from the PRC. The beneficial owner should carry out substantially business activities and own or have control over the income, rights or assets which give rise to such income. Specifically, agents and conduit companies will not be regarded as the beneficial owner of such income.

The principal activity of Tactful is investment holding and dividends declared for the year ended 31 December 2009 are subject to withholding income tax at the rate of 10%.

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

8 DIVIDENDS

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividends proposed after the balance sheet date of HK 1.8 cents per ordinary share (2008: HK 3.2 cents per ordinary share)	<u>4,938</u>	<u>8,828</u>

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

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2009 of RMB50,688,000 (2008: RMB43,847,000) and the ordinary shares in issue of the Company during the year ended 31 December 2009 of 312,000,000 shares (During the year ended 31 December 2008: as if the 312,000,000 ordinary shares had been outstanding throughout the year).

There were no diluted potential ordinary shares during the years presented and therefore, diluted earnings per share are the same as basic earnings per share.

10 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Total RMB'000
Cost:					
At 1 January 2008	36,014	26,497	1,148	2,562	66,221
Additions	1,181	662	345	150	2,338
Transferred from construction in progress	29,039	283	—	—	29,322
Disposals	—	(107)	(467)	(174)	(748)
At 31 December 2008	66,234	27,335	1,026	2,538	97,133
At 1 January 2009	66,234	27,335	1,026	2,538	97,133
Additions	1,885	1,354	469	385	4,093
Transferred from construction in progress	519	22,465	—	98	23,082
Disposals	—	(586)	—	(117)	(703)
Reclassification	(207)	151	—	56	—
At 31 December 2009	68,431	50,719	1,495	2,960	123,605
Accumulated depreciation:					
At 1 January 2008	3,249	5,936	758	1,073	11,016
Charge for the year	2,040	2,384	178	391	4,993
Written back on disposal	—	(95)	(411)	(146)	(652)
At 31 December 2008	5,289	8,225	525	1,318	15,357
At 1 January 2009	5,289	8,225	525	1,318	15,357
Charge for the year	2,982	3,782	168	423	7,355
Written back on disposal	—	(285)	—	(84)	(369)
Reclassification	(28)	23	—	5	—
At 31 December 2009	8,243	11,745	693	1,662	22,343
Net book value:					
At 31 December 2008	<u>60,945</u>	<u>19,110</u>	<u>501</u>	<u>1,220</u>	<u>81,776</u>
At 31 December 2009	<u>60,188</u>	<u>38,974</u>	<u>802</u>	<u>1,298</u>	<u>101,262</u>

11 TRADE AND OTHER RECEIVABLES

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	12,890	9,878
Bills receivable	6,971	2,638
Prepayments and other receivables	3,218	5,664
Other receivables due from related parties	<u>35</u>	<u>14</u>
	<u><u>23,114</u></u>	<u><u>18,194</u></u>

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

The ageing analysis of trade receivables is as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Current	11,655	8,485
1 to 3 months overdue	1,150	1,008
3 to 6 months overdue	85	271
6 months to 1 year overdue	—	98
Over 1 year overdue	<u>—</u>	<u>16</u>
	<u><u>12,890</u></u>	<u><u>9,878</u></u>

The credit term for trade receivables is generally 30 to 90 days.

12 SECURED BANK LOAN

(a) The secured bank loan was repayable as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	<u><u>—</u></u>	<u><u>10,000</u></u>

The secured bank loan as at 31 December 2008 was interest-bearing at rate of 8.217% per annum, which was repaid on 21 June 2009.

(b) The carrying value of assets secured for banking facilities were as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	—	23,391
Lease prepayments	<u>—</u>	<u>12,395</u>
	<u>—</u>	<u>35,786</u>

The banking facility of the Group granted by Jinan Branch of Bank of China, amounting to RMB37,000,000 was expired on 30 October 2009. There was no banking facility granted to the Group as at 31 December 2009.

13 TRADE AND OTHER PAYABLES

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	948	417
Payables for construction of plant and purchase of equipment	10,770	16,715
Receipts in advance	837	1,282
Value added tax payable	568	289
Other payables due to related parties	50	319
Accrued expenses and other payables	<u>5,998</u>	<u>4,412</u>
	<u>19,171</u>	<u>23,434</u>

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

The ageing analysis of trade payables is as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Due within 1 month or on demand	<u>948</u>	<u>417</u>

14 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 2009, namely domestic sales and overseas sales, both of which 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. As a result, the adoption of IFRS 8 makes no material impact on presentation of segment information of the Group.

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 2009 and the reconciliation of reportable segment revenues and profit or loss are set out below.

	Year ended 31 December 2009				
	Domestic	Overseas			Consolidated
		Asia	Americas	Others	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	<u>81,872</u>	<u>19,958</u>	<u>11,715</u>	<u>3,645</u>	<u>117,190</u>
Segment results	70,472	14,336	7,863	2,456	95,127
Unallocated income and expenses					<u>(26,036)</u>
Profit from operations					69,091
Finance costs					(8,996)
Income tax					<u>(9,407)</u>
Profit for the year					<u>50,688</u>

	Year ended 31 December 2008				
	Domestic	Overseas			Consolidated
		Asia	Americas	Others	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	<u>62,754</u>	<u>35,353</u>	<u>15,409</u>	<u>3,083</u>	<u>116,599</u>
Segment results	53,992	22,851	9,902	1,890	88,635
Unallocated income and expenses					<u>(23,498)</u>
Profit from operations					65,137
Finance costs					(10,407)
Income tax					<u>(10,883)</u>
Profit for the year					<u>43,847</u>

15 CAPITAL COMMITMENTS

At 31 December 2009, the Group had capital commitments for construction of property, plant and equipment as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Authorised and contracted for	4,474	620
Authorised but not contracted for	<u>14,776</u>	<u>11,700</u>
	<u>19,250</u>	<u>12,320</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading manufacturer of hyaluronic acid (“HA”) products in the PRC. HA is a natural substance found in many parts of human bodies and animals. It is typically found in the joints, vitreous humor in the eyes, skin, umbilical cord and rooster combs. The HA products of the Group can generally be classified into four grades according to specifications and usages, including the injection grade such as viscoelastic agent in eye surgeries and injection for the treatment of osteoarthritis; eye drop grade applied in eye care products such as eye drop, eye wash and contact lens care lotion; cosmetic grade applied in cosmetic products such as skin-care products, hair-care products and topical ointment; and food grade applied in cosmetic products such as skin-care products, hair-care products, and healthcare products such as oral health supplement.

As a result of the global financial turmoil which has undermined consumer confidence, the global economy was experiencing a slowdown in growth in 2009. To cope with the the challenge, the PRC government has taken various proactive fiscal policies and economic stimulus measures to boost domestic demand and stimulate economic growth which have brought a gradual recovery in the domestic market. Riding on these measures, the Group took full advantages of the favourable economic environment in the PRC to develop the domestic market and the high-end product market. The Group further strengthened its brand building, extended sales network and enhanced and consolidated its leading position in the HA sector. As a result of the effective strategy implementation, the Group had sustained a healthy business growth and improved operating result in 2009.

The Group's annual turnover amounted to RMB117,190,000 in 2009, representing a slight increase of 0.51% as compared to 2008. The Group's gross profits increased by 6.82% from RMB89,905,000 in 2008 to RMB96,037,000 in 2009 and its distributable profits increased by 15.6% from RMB43,847,000 in 2008 to RMB50,688,000 in 2009. Subject to the approval by the shareholders of the Company (the "Shareholder") at the forthcoming annual general meeting, the Directors recommended the payment of a final dividend of HK1.8 cents per share for the year ended 31 December 2009 (2008: HK3.2 cents per share) to the Shareholders whose names appear on the register of members of the Company on 20 May 2010, amounting to approximately HK\$5,616,000 in total.

Strengthen brand promotion and sales expansion

In 2009, the successful listing of the Company provided the Group with an extensive international development platform for the promotion and marketing of the Group's brand and products. With the commencement of operation on the Group's second phase of production base of HA, which was newly-constructed in compliance with the FDA requirements, the Group leveraged the recently acquired qualification of production of food grade Sodium Hyaluronate products and the cutting edge technologies in the HA sector to further strengthen its technological edges and leading position in the HA sector and enhance its brand image in the industry. The Group had been successful in attracting various new customers. Facing the adverse factors amid the global economic recession as well as the development opportunities arising from the economic stimulus measures in the PRC, the Group adjusted its operating strategies and sales mix. In view of the slowdown in sales in overseas market, the Group had made additional efforts to expand the rapidly developing domestic market. While maintaining the market share in overseas market, the Group had also increased its products sales mix of eye drop grade and injection grade HA products which have a higher gross margin.

Production efficiency and costs reduction

In 2009, the Group continued its effort in improving its production process. The Group on one hand endeavoured to increase the product yield rate and production efficiency by further optimizing and improving production technologies such as HA fermentation and purification, and on the other hand, it stepped up efforts on the improvement of the relevant production processes and equipment reform to promote energy saving and consumption reduction. Through the improvement of various processes of manufacturing of HA, the Group continually enhanced the product quality and maintained a relatively high technological level and reduced production costs for HA, which generated greater economic benefits to the Group.

R&D enhancement and product expansion

In 2009, the Group continued its effort in R&D enhancement in order to maximize the economic benefits of its existing products and to develop new products. A national patent had been obtained for the “production of Sodium Hyaluronate and its salts”. The Group’s cosmetic grade, food grade and pharmaceutical HA products were included in the first batch of Jinan City’s self-innovative products. Technological research and development has always been the key element of the Group’s sustainability. While maintaining an advanced technology standard of HA and further improving the quality of its existing products and production efficiency, the Group also fortified its research and development efforts, enhanced its production skills and expanded its product chains. The Group also reinforced its research and development efforts on its high-end products and new products, and stepped up the effort on filing of the research results. In 2009, the Group completed the research of production technique for a soft tissue filler that makes use of cross-linked HA to be used in medical device, established the related ISO13485 quality management system and preparation was being made for the CE certification of the same. In order to further expand the market, the Group had also engaged in the research and development of another kind of end product of HA — HA gel for orthopaedic and ophthalmologic uses.

BUSINESS OUTLOOK

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

Strengthen the production technology and product development by enhancing the research and development capability

The success of the Group is, to a significant extent, attributable to the strong research and development capability of the Group. The Group intends to continue to invest in the research and development of new production technologies, continue to improve the production yield rate and the quality of its existing products in order to develop and launch new products that have promising demand, such as cross-linked HA used as soft tissue fillers and HA used in orthopaedic and eye treatment. Although the Group has a research and development team led by experienced technical staff, the Group intends to recruit additional research staff in the coming years to further strengthen its research and development capability.

Increase product range of injection grade HA finished products as medical device

The Group intends to obtain a number of certificates such as FDA certificate in the US for its injection grade products, COS certificate in Europe and KFDA certificate in Korea for the Group's eye drop grade and injection grade products, and GMP certificate for its new production line for the manufacture of raw materials and excipients for pharmaceutical products. The Directors believe that with such certificates, the demand for the Group's products will be boosted since they are prerequisites for some potential customers of the Group, such as drug manufacturers, that the Group should obtain the relevant certificates for those customers to use the Group's products as raw materials in their production. In addition, HA products applied in pharmaceutical uses generally can attract higher selling prices than other HA products, which in turn will bring higher sales revenue to the Group.

The current injection grade HA products of the Group are only used as raw materials for medical devices or intermediates of raw materials for pharmaceutical products. In order to expand its product range to cover the high end market, the Group plans to manufacture injection grade HA finished products for medical device. The HA finished product that the Group intends to launch is a soft tissue filler that makes use of cross-linked HA and is applied in cosmetic plastic surgery for filling soft tissue defects such as facial wrinkles. The Group has obtained the medical device manufacturing enterprise license (醫療器械生產企業許可證) and in the process to obtain the medical device registration certificate (醫療器械註冊證書). The Group will be able to manufacture injection grade HA finished products for medical device such as soft tissue filler products. The production line for the manufacture of injection grade HA finished products for medical device will commence commercial operation upon the Group's obtaining all the necessary licenses and certificates. According to the relevant laws and regulations, small-scale operation may be conducted through such production line for the purpose of application for the relevant licenses and certificates.

Expand distribution network

The Group intends to develop business relationship with more renowned brand names in order to increase the market awareness of the Group's brand and to expand its share in overseas market. The Group will target at cosmetic products, health food and pharmaceutical products enterprises with well known brand names in the international markets. In order to develop business relationship with such enterprises, the Group will strengthen its marketing efforts by participating in more trade fairs and exhibitions, and paying visits to potential customers so that the Group can get closer contacts with these enterprises to understand their needs.

For the expansion of overseas markets, the Group will continue to focus on the US, Asia Pacific region and Europe, where it has already developed its foothold and the Directors believe that these markets are of high spending power, and will further expand other new markets such as Russia, India and South America. The Directors consider that the Group has adequate resources for expanding these new markets given that the production scale and product quality of the Group's products can fulfill the requirements of these markets; the Group's sales team have accumulated extensive experiences on overseas sales; and the Group has already achieved some sales in these markets. The Group will actively participate in the relevant trade fairs and exhibitions, convene product introduction conference and place advertisements so as to promote the image of the Group's products. Furthermore, the Group will commence establishing and expanding its sales network by selecting local distributors and resellers.

The Group also plans to expand the sales of food grade HA products. At present, the Ministry of Health of the PRC (中華人民共和國衛生部) has already approved the production of HA as a new source of food and the Group has obtained a food hygiene permit (食品衛生許可證) issued by the Health Bureau of the Shandong Province (山東省衛生廳) for the production and sales of HA as a new source of food. After obtaining the food hygiene permit, the Group can manufacture and sell the food grade HA products for food use, for example, as raw material in oral health supplement. The Group will strengthen the marketing effort to promote its food grade products to customers such as health food manufacturers. Furthermore, the Food Safety Law of the PRC (中華人民共和國食品安全法) had been promulgated and the Implementation Rules of the Food Safety Law of the PRC (中華人民共和國食品安全法實施條例) had also been announced on 20 July 2009 to which the Group will pay close attention. If such law or rules are applicable to the Group, the Group will strictly comply with the requirements of such law, rules and the related auxiliary provisions, and will fulfill the procedures for approval, registration or filing if necessary.

In order to expand its distribution network, the Group will strengthen its sales and marketing team by increasing the number of team members and improving their quality.

FINANCIAL REVIEW

Turnover

The Group's turnover for the year 2009 was RMB117.19 million, representing a slight increase of 0.5% or RMB0.591 million as compared to 2008. The slight increase represented the net effect of the increase in sales of injection grade and eye drops grade products and the decrease in turnover in sales of cosmetic and food grade products.

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

	For the year ended 31 December			
	2009		2008	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Injection	17,296	14.8	15,488	13.3
Eye drop	16,931	14.4	9,033	7.7
Cosmetic	69,604	59.4	70,260	60.3
Food	12,426	10.6	20,551	17.6
Other	<u>933</u>	<u>0.8</u>	<u>1,267</u>	<u>1.1</u>
Total	<u>117,190</u>	<u>100.0</u>	<u>116,599</u>	<u>100.0</u>

Cost of sales

Cost of sales for the year ended 31 December 2009 was approximately RMB21.153 million, representing a decrease of approximately 20.8% as compared to approximately RMB26.694 million for 2008. The decrease was mainly attributable to the decrease in the sales volume and the increase in VAT refund rate for export sales during 2009.

Gross profit margin

The Group's gross profit margin for the year 2009 increased to 81.9% from 77.1% in 2008. The increase was mainly due to the change in products sales mix following the adjustment in the the Group's marketing strategy in 2009 and the increase in VAT refund rate for export sales during 2009. The Group had adjusted its products sales mix by focusing on the sales of eye drop grade and injection grade HA products which have a higher gross margin.

Other revenue and income

Other revenue and income of the Group was RMB2.461 million for the year 2009, representing a decrease of about 39.7% from approximately RMB4.083 million for the year 2008. The decrease in other revenue and income was attributable to the decrease in the government grants.

Distribution costs

The Group's distribution costs for the year 2009 were approximately RMB9.794 million, representing a decrease of about 15.2% from approximately RMB11.546 million for the year 2008. The decrease was in line with the decrease in production volume and the decrease in export sales in 2009.

Administrative expenses

The Group's administrative expenses for the year 2009 were approximately RMB19.273 million, representing an increase of about 17.4% from approximately RMB16.410 million for the year 2008. The increase in administrative expenses was mainly due to additional administrative expenses incurred as a result of the successful listing of the Company in October 2008.

Other operating expenses

The Group's other operating expenses for the year 2009 were approximately RMB0.34 million, representing a decrease of about 62.0% from approximately RMB0.895 million for the year 2008. The decrease in other operating expenses for the year 2009 was mainly attributable to the decrease in the exchange loss and bank commission.

Finance costs

The Group's finance costs for the year 2009 were approximately RMB8.996 million, representing a decrease of about 13.6% from approximately RMB10.407 million for the year 2008. The decrease in finance costs was mainly attributable to the decrease in interest expenses on bank borrowings.

Profit for the year

The Group's net profit for the year 2009 was approximately RMB50.688 million, representing an increase of about 15.6% from approximately RMB43.847 million for the year 2008.

Final dividend and closure of register

The Board proposed the payment of a final dividend of HK1.8 cents (2008: HK3.2 cents) per share to the Shareholders whose names appear on the register of members of the Company on 20 May 2010. Subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company, it is expected that the final dividend will be paid on or around 10 June 2010.

The transfer books and the register of members of the Company will be closed from 17 May 2010 to 20 May 2010, both days inclusive. During such period, no share transfers will be effected. In order to qualify for the proposed final dividend and attending the annual general meeting, all transfer documents, accompanied by the

relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, whose share registration public office is located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 14 May 2010.

Liquidity, capital structure and financial resources

As at 31 December 2009, the Group had current assets of approximately RMB131.023 million (2008: RMB97.488 million) and current liabilities of approximately RMB29.126 million (2008: RMB42.716 million). The current ratio of the Group as at 31 December 2009 was approximately 449.8% (2008: 228.2%). The increase in current ratio was due to the increase in cash from operation and decrease in bank borrowings.

As at 31 December 2009, the Group had cash and cash equivalents of approximately RMB95.282 million (31 December 2008: RMB71.634 million) and total liabilities of approximately RMB76.271 million (31 December 2008: RMB87.513 million).

As at 31 December 2009, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 31.1% (31 December 2008: 40.7%). The decrease in gearing ratio as at 31 December 2009 as compared to that as at 31 December 2008 was principally attributable to the increase in total assets resulted from the Group's business operation and the repayment of bank borrowings in 2009.

Net cash generated from operating activities for 2009 was approximately RMB59.443 million.

Net cash outflow to investing activities for 2009 was approximately RMB10.221 million after the offset between the capital expenditure of approximately RMB10.752 million in enhancement of production facilities in various divisions of the Group and the income generated from the disposal of fixed assets of approximately RMB0.531 million.

Net cash outflow from financing activities for 2009 was approximately RMB25.56 million, representing the repayment of bank borrowings of RMB10 million, the payment of interest of preferred shares of RMB6.732 million and the payment of dividend to equity shareholders of approximately RMB8.828 million.

The Board is of the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Exchange risk exposure

The Group's sales were principally made in RMB and US Dollars, with the majority of which denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group has not adopted formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review.

Contingent liabilities

As at 31 December 2009, the Group had no contingent liabilities.

Capital commitment

As at 31 December 2009, the capital commitment of Group was approximately RMB19.25 million (2008: RMB12.32 million).

Employee information

As at 31 December 2009, the Group had 220 employees, majority of whom were stationed in the PRC. Total remuneration for 2009 amounted to RMB16.942 million (2008: RMB14.170 million). The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

Charge on assets

As at 31 December 2009, the Group did not have any charge on its assets.

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

On 28 April 2009, Tactful World Limited ("Tactful"), an indirect wholly-owned subsidiary of the Company, entered into a capital increase agreement with Freda Biopharm and Shandong Freda Pharmaceutical Group Company Limited ("Freda Pharmaceutical Group"), pursuant to which (i) the registered capital of Freda Biopharm, a non wholly-owned subsidiary of the Company, would be increased from RMB58.8 million to RMB88.8 million; and (ii) the total investment amount of Freda Biopharm would be increased from RMB80 million to RMB180 million. Tactful solely contributed the full amount of the increase in the registered capital. On 19 June 2009, Freda Biopharm has obtained the relevant corporate business licence issued by Business and Administration Bureau of Shangdong Province.

Upon completion of the increase in registered capital, the equity interest of Tactful in Freda Biopharm was increased from 91.5% to 94.37% and the equity interest of Freda Pharmaceutical Group in Freda Biopharm was decreased from 8.5% to 5.63%. The increase in registered capital represented an injection of the net proceeds from the share offer of the Company to Freda Biopharm to implement the future plans of the Group. Details of the capital increase agreement are set out in the announcement of the Company dated 28 April 2009.

Saved as disclosed above, during the year ended 31 December 2009, the Group did not have any significant investment, material acquisition and disposal of subsidiaries and associated companies.

Purchase, sale or redemption of the Company's listed securities

During the year ended 31 December 2009, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

Code on corporate governance practices

The Company has applied the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). During 2009, the Company has complied with the code provisions of the Code, save for the following:

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Since its listing in October 2008 and up to 2 November 2009 (the "Relevant Period"), the Company did not have any officer with the title of "chief executive officer". This was deviated from the code provision A.2.1.

During the Relevant Period, Ms. Zhao Yan, who acted as the chairman of the Company, was also responsible for overseeing the general operations of the Group. The Board would meet regularly to consider major matters affecting the operations of the Company. The Board considered that this structure would not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management who are in charge of different functions complemented the role of the chairman and chief executive officer. The Board believed that this structure was conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 and on 3 November 2009, Mr. Guo Jiajun, an executive Director, was appointed as the chief executive officer of the Company and thereafter, the Company had fully complied with the code provision A.2.1.

AUDIT COMMITTEE

The primary duties of the audit committee of the Company (the “Audit Committee”) are to review and supervise the financial reporting process and internal control procedures of the Group. The members of the Audit Committee consist of three independent non-executive Directors, namely Mr. Qin Bin, Ms. Zhan Lili and Mr. Zhang Fuping. Mr. Qin Bin who possesses a professional accounting qualification and relevant accounting experience, is the chairman of the Audit Committee. The Audit Committee shall meet at least twice a year.

The written terms of reference of the Audit Committee adopted by the Board are in line with the code provisions of the Code and are available upon request and on the Company’s website.

During 2009, the Audit Committee had reviewed the Group’s internal controls. The Group’s final results for the year ended 31 December 2009 had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee confirm that the final results of the Group for 2009 is complete and accurate, and complies with all applicable laws and regulations including but not limited to, the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

PUBLICATION OF ANNUAL REPORT

The 2009 annual report of the Group will be dispatched to the Shareholders and published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.bloomagebio-tech.com) respectively in due course.

By order of the Board
Bloomage BioTechnology Corporation Limited
Zhao Yan
Chairman

Hong Kong, 9 April 2010

As at the date of this announcement, the executive Directors are Ms. Zhao Yan and Mr. Guo Jiajun; the non-executive Director is Mr. Cheng Bo; and the independent non-executive Directors are Ms. Zhan Lili, Mr. Zhang Fuping and Mr. Qin Bin.