Biostime International Holdings Limited
合生元國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1112)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

	2010	2009	**Change**
	RMB'000	*RMB'000*	
Revenue	**1,233,560**	558,969	120.7%
Gross Profit	**877,173**	395,953	121.5%
Profit for the year	**265,683**	108,317	145.3%
Net cash flows from operating activities	**381,012**	109,798	247.0%
Free cash flow	**363,333**	104,029	249.3%
Basic earnings per share	**RMB0.58**	RMB0.24	141.7%
Proposed final dividend per ordinary share	**HK$0.20**	—	

- Our revenue amounted to RMB1,233.6 million in 2010, representing an increase of RMB674.6 million or 120.7% from revenue of RMB559.0 million in 2009.
- Our profit for the year amounted to RMB265.7 million in 2010, representing an increase of RMB157.4 million or 145.3% from profit for the year of RMB108.3 million in 2009.
- Excluding the listing expenses, our net profit margin increased from 19.4% in 2009 to 23.4% in 2010. Taking the listing expenses into consideration, our net profit margin was 21.5% in 2010.
- Our net cash flow from operating activities amounted to RMB381.0 million in 2010, representing an increase of RMB271.2 million or 247.0% from net cash flow from operating activities of RMB109.8 million in 2009.
- Excluding the listing expenses and net proceeds from the Initial Public Offering ("IPO"), our return on equity ("ROE") increased from 63.5% in 2009 to 91.7% in 2010. Taking the listing expenses and net proceeds from the IPO into consideration, our ROE was 16.0% in 2010.
- Our basic earnings per share increased from RMB0.24 in 2009 to RMB0.58 in 2010, representing an increase of RMB0.34 or 141.7%.

The board (the "Board") of directors (the "Directors") of Biostime International Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2010, together with the comparative figures for the corresponding period in 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	**2010** *RMB'000*	2009 *RMB'000*
REVENUE	*3*	**1,233,560**	558,969
Cost of sales		**(356,387)**	(163,016)
Gross profit		**877,173**	395,953
Other income and gains	*3*	**4,353**	3,061
Selling and distribution costs		**(449,453)**	(248,299)
Administrative expenses		**(87,640)**	(26,462)
Other expenses		**(10,370)**	(6,100)
PROFIT BEFORE TAX	*4*	**334,063**	118,153
Income tax expense	*5*	**(68,380)**	(9,836)
PROFIT FOR THE YEAR		**265,683**	108,317
Profit attributable to owners of the parent		**265,683**	108,317
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(8,151)**	(3)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**257,532**	108,314
Total comprehensive income attributable to owners of the parent		**257,532**	108,314
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*7*		
Basic		**0.58**	0.24
Diluted		**0.58**	0.24

Details of the dividends payable and proposed for the year are disclosed in note 6.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**31,280**	21,782
Intangible assets		**1,168**	1,099
Deposits paid for the purchase of property, plant and equipment		**1,640**	1,278
Deferred tax assets		**5,769**	5,596
Total non-current assets		**39,857**	29,755
CURRENT ASSETS			
Inventories	*8*	**106,098**	80,953
Trade and bills receivables	*9*	**5,211**	3,653
Prepayments, deposits and other receivables		**22,622**	20,915
Due from a director		**—**	300
Due from related companies		**—**	7,958
Restricted cash		**—**	6,090
Cash and cash equivalents		**1,728,211**	133,795
Total current assets		**1,862,142**	253,664
CURRENT LIABILITIES			
Trade payables	*10*	**65,833**	39,657
Other payables and accruals		**142,344**	63,550
Interest-bearing bank loan		**—**	500
Due to a related company		**—**	48
Tax payable		**28,170**	9,107
Total current liabilities		**236,347**	112,862
NET CURRENT ASSETS		**1,625,795**	140,802
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,665,652**	170,557
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**5,760**	—
Net assets		**1,659,892**	170,557
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*11*	**5,141**	—
Reserves		**1,553,354**	129,415
Proposed final dividend	*6*	**101,397**	41,142
Total equity		**1,659,892**	170,557

NOTES TO FINANCIAL STATEMENTS

31 December 2010

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standards ("IASs") and Interpretations promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The acquisitions of the subsidiaries pursuant to the group reorganisation (the "Reorganisation") were regarded as a business combination under common control. Accordingly, the consolidated financial statements have been prepared in accordance with the principles of merger accounting. On this basis, the Company has been treated as the holding company of its subsidiaries since the beginning of the financial periods presented rather than from their respective dates of acquisition. Accordingly, the consolidated results for the year ended 31 December 2010 include the results of the Company and its subsidiaries with effect from 1 January 2010 or since their respective dates of incorporation or establishment, whichever is shorter. The comparative consolidated statement of financial position as at 31 December 2009 has been prepared as if the Group had been in place at that date.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

1.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs, which are effective for annual periods beginning on or after 1 January 2010, for the first time for the current year's financial statements:

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS1 *First-time Adoption of International Financial Reporting — Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS2 *Share-base Payment — Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

The adoption of the new and revised IFRSs has had no significant effect on the financial statements of the Group.

2. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) Probiotic supplements segment comprises the production of probiotic supplements in the form of sachet, capsules and tablets for infants, children and expectant mothers;

(b) Infant formulas segment comprises the production of infant formulas for children under three years old and milk formulas for expectant and nursing mothers;

(c) Dried baby food products segment comprises the production of dried baby food products made from natural foods, such as meat, seafood, fruit and vegetables, for infants and young children; and

(d) Baby care products segment comprises the production of baby care products for infants and children, including baby diapers and toiletry kits as well as personal care products for nursing mothers, such as nursing pads.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that interest income, other income and unallocated gains as well as head office and corporate expenses are excluded from such measurement.

The Group's revenue from external customers is all derived from its operations in the PRC and its non-current assets are all located in the PRC.

During the years ended 31 December 2010 and 2009, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Operating segment information for the year ended 31 December 2010

	Probiotic supplements *RMB'000*	Infant formulas *RMB'000*	Dried baby food products *RMB'000*	Baby care products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	**303,749**	**793,565**	**97,779**	**38,467**	**—**	**1,233,560**
Segment results	**248,724**	**542,598**	**64,448**	**21,403**	**—**	**877,173**
Reconciliation:						
Interest income						**2,224**
Other income and unallocated gains						**2,129**
Corporate and other unallocated expenses						**(547,463)**
Profit before tax						**334,063**
Other segment information:						
Depreciation and amortisation	**1,279**	**163**	**350**	**13**	**5,257**	**7,062**
Write-back of impairment of trade receivables	**(62)**	**—**	**—**	**—**	**—**	**(62)**
Write-down of inventories to net realisable value	**—**	**—**	**369**	**—**	**—**	**369**
Capital expenditure*	**331**	**428**	**106**	**99**	**15,812**	**16,776**

Operating segment information for the year ended 31 December 2009

	Probiotic supplements *RMB'000*	Infant formulas *RMB'000*	Dried baby food products *RMB'000*	Baby care products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	265,886	238,108	54,975	—	—	558,969
Segment results	203,311	160,272	32,370	—	—	395,953
Reconciliation:						
Interest income						765
Other income and unallocated gains						2,296
Corporate and other unallocated expenses						(280,861)
Profit before tax						118,153
Other segment information:						
Depreciation and amortisation	1,754	89	1,289	—	1,663	4,795
Write-down of inventories to net realisable value	34	—	709	—	—	743
Capital expenditure*	420	194	66	—	3,984	4,664

* Capital expenditure consists of additions to property, plant and equipment and computer software.

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns, rebates and trade discounts (net of value-added tax) during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	2010 ***RMB'000***	2009 *RMB'000*
Revenue		
Sale of goods	**1,233,560**	558,969
Other income and gains		
Bank interest income	**2,224**	765
Others	**2,129**	2,296
	4,353	3,061

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2010 *RMB'000*	2009 *RMB'000*
Cost of inventories sold	**356,018**	162,273
Depreciation	**6,827**	4,703
Amortisation of intangible assets	**235**	92
Research and development costs*	**5,927**	4,285
Loss on disposal of items of property, plant and equipment	**88**	—
Minimum lease payments under operating leases in respect of buildings	**6,791**	7,348
Auditors' remuneration	**1,270**	40
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	**130,925**	66,683
Pension scheme contributions (defined contribution schemes)	**16,916**	8,288
Staff welfare and other expenses	**6,287**	2,715
Equity-settled share option expense	**2,649**	—
	156,777	77,686
Write-back of impairment of trade receivables*	**(62)**	—
Write-down of inventories to net realisable value#	**369**	743

* Included in "Other expenses" in the consolidated statement of comprehensive income.
# Included in "Cost of sales" in the consolidated statement of comprehensive income.

5. INCOME TAX

	2010 *RMB'000*	2009 *RMB'000*
Group:		
Current — PRC		
Charge for the year	**62,793**	10,996
Deferred	**5,587**	(1,160)
Total tax charge for the year	**68,380**	9,836

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: Nil).

PRC enterprise income tax ("EIT")

Pursuant to the PRC Enterprise Income Tax Law and the respective regulations, except for the preferential tax treatment available to Biostime (Guangzhou) Health Products Limited ("Biostime Health"), the subsidiaries of the Group which operate in Mainland China are subject to EIT at a rate of 25% on their respective taxable income for the years ended 31 December 2010 and 2009.

Biostime Health is a foreign invested enterprise ("FIE") which engages in manufacturing and was exempted from EIT for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% tax reduction for the subsequent three years (the "FIE Tax Holiday"). Biostime Health's first profit-making year was the year ended 31 December 2008 which was also the first year of its FIE Tax Holiday. Accordingly, it was exempted from EIT for the two years ended 31 December 2008 and 2009 and is subject to EIT at reduced rates of 11% for the year ended 31 December 2010 and 12% and 12.5% for the years ending 31 December 2011 and 2012, respectively.

France corporate income tax

No provision for France corporate income tax has been made as the Group did not generate any assessable profits arising in France during the year (2009: Nil).

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the majority of the subsidiaries of the Company is domiciled to the tax expense at the effective tax rate is as follows:

	2010	2009
	RMB'000	*RMB'000*
Group:		
Profit before tax	**334,063**	118,153
Tax at the applicable PRC enterprise income tax rate	**83,516**	29,538
Effect of tax concession for Biostime Health	**(27,725)**	(23,291)
Expenses not deductible for tax	**37**	3,463
Effect of a lower enacted tax rate used for the recognition of deferred tax	**4**	92
Tax losses not recognised	**6,788**	34
Effect of withholding tax on the distributable earnings of the Group's PRC subsidiaries	**5,760**	—
Tax charge at the Group's effective rate	**68,380**	9,836

6. DIVIDENDS

	2010	2009
	RMB'000	*RMB'000*
Proposed final dividend — HK$0.20 per ordinary share	**101,397**	—

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The dividends paid by the Company's subsidiaries to its then shareholder before the listing of the Company were as follows:

	2010	2009
	RMB'000	*RMB'000*
Dividends declared	**104,814**	27,461
Proposed final dividend	**—**	41,142

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 456,164,384 (2009: 450,000,000) in issue during the year as if the Reorganisation had been effective since 1 January 2009.

The calculations of basic and diluted earnings per share are based on:

	2010	2009
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**265,683**	108,317

	Number of Shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**456,164,384**	450,000,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**327,500**	—
Over-allotment options	**924,657**	—
	457,416,541	450,000,000

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2009 includes the pro forma issued share capital of the Company of 450,000,000 shares, which comprised the following:

(i) 1 share issued to Biostime Pharmaceuticals (China) Limited ("Biostime Pharmaceuticals"); and

(ii) 449,999,999 shares issued to Biostime Pharmaceuticals as result of Reorganisation.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2010 includes the weighted average of 150,000,000 shares issued upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 December 2010 (the "Listing Date"), namely 6,164,384 shares and the above-mentioned 450,000,000 ordinary shares.

The calculation of the diluted earnings per share amount for the year ended 31 December 2010 is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment had been made to the basic earnings per share amounts presented for the year ended 31 December 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during that year.

8. INVENTORIES

	2010	2009
	RMB'000	*RMB'000*
Raw materials	**82,250**	64,837
Work in progress	**6,483**	4,025
Finished goods	**17,365**	12,091
	106,098	80,953

9. TRADE AND BILLS RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**549**	1,095
Bills receivable	**4,662**	2,620
Less: Impairment provision	**—**	(62)
	5,211	3,653

Advance payment is normally required from customers of the Group, except in very limited situations for credit sales. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade and bills receivables approximate to their fair values.

Bills receivable represent bank acceptance notes issued by banks in Mainland China which are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2010	2009
	RMB'000	*RMB'000*
Within 1 month	**1,075**	2,077
2 to 3 months	**2,503**	1,382
Over 3 months	**1,633**	194
	5,211	3,653

The above aged analysis included bills receivable balance of RMB4,662,000 (2009: RMB2,620,000).

10. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2010	2009
	RMB'000	*RMB'000*
Within 1 month	**40,090**	25,968
2 to 3 months	**23,165**	13,122
Over 3 months	**2,578**	567
	65,833	39,657

The trade payables are non-interest-bearing. The average credit period for trade purchases is 30 to 90 days.

11. SHARE CAPITAL

Shares

	2010	2009
Authorised:		
10,000,000,000 (2009: Nil) ordinary shares of HK$0.01 each	**HK$100,000,000**	—
Issued and fully paid:		
600,000,000 (2009: Nil) ordinary shares of HK$0.01 each	**HK$6,000,000**	—
Equivalent to	**RMB5,141,000**	—

During the year, the movements in share capital were as follows:

	Notes	Number of ordinary shares	Nominal value of ordinary shares	
			HK$'000	*RMB'000*
Authorised:				
On 30 April 2010 (date of incorporation)	*(a)*	38,000,000	380	334
Increase of authorised capital	*(b)*	9,962,000,000	99,620	86,820
As at 31 December 2010		10,000,000,000	100,000	87,154
Issued:				
On 30 April 2010 (date of incorporation)	*(a)*	1	—	—
Issuance of new shares for Reorganisation	*(c)*	449,999,999	4,500	3,856
Issuance of new shares for the initial public offering	*(d)*	150,000,000	1,500	1,285
As at 31 December 2010		600,000,000	6,000	5,141

(a) On 30 April 2010, the Company was incorporated with authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On 30 April 2010, one nil paid share of HK$0.01 was allotted and issued to the initial subscriber. The share was then transferred to Biostime Pharmaceuticals on the same date.

(b) On 12 July 2010, the authorised share capital of the Company was increased to HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each by the creation of 9,962,000,000 shares of HK$0.01 each.

(c) On 16 November 2010, as consideration for the acquisition from Biostime Pharmaceuticals the entire equity interest in each of Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), Biostime Health and BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou"), 449,999,999 shares of HK$0.01 were allotted and issued to Biostime Pharmaceuticals, credited as fully paid. After such allotment and issue, Biostime Pharmaceuticals held 450,000,000 shares (which constituted the then entire issued share capital of the Company) in the Company.

(d) In connection with the Company's initial public offering, 150,000,000 shares of HK$0.01 each were issued at a price of HK$11.00 per share for a total cash consideration, before listing expenses, of HK$1,650,000,000 (equivalent to RMB1,412,961,000). Dealings in these shares on the Stock Exchange commenced on 17 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

The purpose of this discussion is to provide an understanding of the Group's financial results and condition by focusing on changes in certain key measures from year to year. Management's Discussion and Analysis is organized in the following sections:

- ➢ Business overview
- ➢ Summary of 2010 results
- ➢ Results of operations
- ➢ Financial condition

BUSINESS OVERVIEW

We provide premium pediatric nutritional and baby care products in China. Our family of products includes premium probiotic supplements for children, infant formulas and dried baby food products marketed under the brand name *Biostime*™. We are committed to developing premium pediatric nutritional brands and products that help to improve the health and development of infants, children and expectant mothers in China. The high-quality pediatric nutritional products that we produce have enabled us to successfully establish as one of the significant brands within the premium pediatric nutritional products market in China. Our product segments consisted of:

- probiotic supplements in the form of sachet, capsules and tablets for infants, children and expectant mothers;

- infant formulas for children under three years old and milk formulas for expectant and nursing mothers;

- dried baby food products made from natural food, such as meat, seafood, fruit and vegetables, for infants and young children; and

- baby care products for infants and children, including baby diapers and toiletry kits as well as personal care products for nursing mothers, such as nursing pads.

SUMMARY OF 2010 RESULTS

The table below sets forth our selected consolidated statements of comprehensive income information for the years indicated:

	Year ended 31 December	
Amounts in RMB'000	**2010**	2009
Revenue	**1,233,560**	558,969
Gross Profit	**877,173**	395,953
Selling & distribution costs, administrative expenses	**537,093**	274,761
Profit before tax	**334,063**	118,153
Profit for the year	**265,683**	108,317

The table below sets forth our selected consolidated statements of financial position information as of the dates indicated:

	As of 31 December	
Amounts in RMB'000	**2010**	2009
Non-current assets	**39,857**	29,755
Current assets	**1,862,142**	253,664
Current liabilities	**236,347**	112,862
Net current assets	**1,625,795**	140,802
Non-current liabilities	**5,760**	—
Net assets	**1,659,892**	170,557

The table below sets forth our selected consolidated statements of cash flows information for the years indicated:

	Year ended 31 December	
Amounts in RMB'000	**2010**	2009
Cash and cash equivalents at beginning of year	**133,795**	59,765
Net cash flows from operating activities	**381,012**	109,798
Net cash used in investing activities	**(9,393)**	(9,835)
Net cash flows from/(used in) financing activities	**1,230,948**	(25,930)
Effect of foreign exchange rate change, net	**(8,151)**	(3)
Cash and cash equivalents at end of year	**1,728,211**	133,795

RESULTS OF OPERATIONS

Revenue

Revenues increased from RMB559.0 million in 2009 to RMB1,233.6 million in 2010, representing an increase of 120.7% in 2010. The increase was primarily due to the expansion of our business and an increase in the sales volume of our products, especially the increase in sales volume of our infant formulas.

The following table sets forth our revenues by product segment for the years indicated:

	Year ended 31 December			
	2010		2009	
Amounts in RMB'000	**Revenue**	**%**	Revenue	%
Probiotic supplements	**303,749**	**24.6%**	265,886	47.6%
Infant formulas	**793,565**	**64.3%**	238,108	42.6%
Dried baby food products	**97,779**	**8.0%**	54,975	9.8%
Baby care products	**38,467**	**3.1%**	—	—
Total revenue	**1,233,560**	**100.0%**	558,969	100.0%

Probiotic supplements

Revenue of our probiotic supplements increased by 14.2% from RMB265.9 million in the year ended 31 December 2009 to RMB303.7 million in the year ended 31 December 2010. The sales volume increased by 11.5% mainly due to an expansion of sales network and greater market recognition of our products, leading to the increase in coverage of our target consumers. The average selling price increase further added 2.4% to sales growth.

Infant formulas

Revenue of our infant formulas increased by 233.3% from RMB238.1 million in the year ended 31 December 2009 to RMB793.6 million in the year ended 31 December 2010, and contributed 64.3% of total revenue in 2010. The sales volume significantly increased by 236.0% primarily due to increasing consumer base and the expansion of our sales network and greater market recognition for our infant formula products. Such increase was also due to the newly introduced Biostime Golden Care Infant Formulas launched in May 2010 which contributed 15.5% of total infant formulas sales in 2010. Our high-tier infant formulas, including Biostime Golden Care Infant Formulas and Biostime Premium Infant Formulas, contributed 46.6% of total infant formulas sales in 2010 compared with 45.4% of total infant formulas sales in 2009. Our supreme-tier infant formulas, including Biostime Supreme Infant Formulas and Biostime Supreme Care Infant Formulas, contributed 49.0% of total infant formulas sales in 2010 compared with 48.5% of total infant formulas sales in 2009. The average selling price of our infant formulas remained stable in the years ended 31 December 2009 and 2010.

Dried baby food products

Revenue of our dried baby food products increased by 77.8% from RMB55.0 million in the year ended 31 December 2009 to RMB97.8 million in the year ended 31 December 2010. The sales volume of our dried baby food products increased by 177.7% primarily due to the significant increase in sales of baby cereal products launched in April 2009. The increase in sales volume in the year ended 31 December 2010 was partly offset by the decrease in average selling price primarily due to the increase in baby cereal products, which have lower than segment average selling price.

Baby care products

We began marketing baby care products under our newly-introduced *BMcare*™ brand in May 2010 and at the same time launching baby diapers as our key baby care product. In July 2010, we further introduced nursing pads as a supplement product in this category. In the year ended 31 December 2010, our baby care products generated RMB38.5 million of revenue and received very good feedback from our consumers.

Gross profit margin

Our gross profit margin maintained at above 70.0% during the years from 2009 to 2010, which was generally higher as compared with other infant formula companies in the PRC. The higher gross profit margin is mainly attributable to the higher average selling prices of our infant formulas, which is a result of our strategy to target and focus on high-end consumers who demand products with high quality.

Our gross profit increased to RMB877.2 million in 2010, representing an increase of 121.5% as compared to RMB396.0 million in 2009. Our gross profit margin increased from 70.8% in 2009 to 71.1% in 2010, which was mainly attributable to (i) the effective cost control; (ii) the increased gross profit margin of our probiotic supplements. The gross profit margin of our probiotic supplements increased from 76.5% in 2009 to 81.9% in 2010; (iii) the increased portion of revenue derived from Biostime Supreme Infant Formulas and Biostime Supreme Care Infant Formulas, which enjoy higher profit margins than other series of infant formulas.

Other income and gains

Other income and gains increased by 41.9% from RMB3.1 million in 2009 to RMB4.4 million in 2010. The increase of other income and gains was primarily due to the increase in interest income, as we placed more interest-bearing bank deposits during 2010.

Selling and distribution costs

Our selling and distribution costs increased by 81.0% from RMB248.3 million in 2009 to RMB449.5 million in 2010. The increase in our selling and distribution costs was primarily due to increase in promotional expenses, advertising expenses and staff costs and office expenses, which were in line with our business growth and increase in sales of our products. Although the selling and distribution costs increased substantially in 2010, our selling and distribution costs as a percentage of our total revenue decreased from 44.4% in 2009 to 36.4% in 2010. The decrease in our selling and distribution costs as a percentage of our total revenue in 2010 was primarily due to our effective operation management through the Mama100 platform, which enable us to effectively lower the new member acquisition cost and enhance the members' loyalty.

Administrative expenses

Our administrative expenses increased by 230.6% from RMB26.5 million in 2009 to RMB87.6 million in 2010. The increase was primarily due to (i) the increase in listing expenses and (ii) the increase in salaries and wages of our administrative staff, as a result of addition of managerial employees to support our business, which corresponded to our business growth as well as increase in average remuneration level. Our administrative expenses as a percentage of our total revenue increased from 4.7% in 2009 to 7.1% in 2010. The increase in our administrative expenses as a percentage of our total revenue in 2010 was primarily due to listing expenses, which accounted for approximately 1.8% of our total revenue. The increase in our administrative expenses as a percentage of our total revenue in 2010 was also due to the increased salaries and wages.

Other expenses

Our other expenses increased by 70.5% from RMB6.1 million in 2009 to RMB10.4 million in 2010. The increase in other expenses was primarily due to the increase in research and development expenses as a result of the addition of research and development personal and programs, as well as the increase in donations to charity organizations.

EBITDA margin

Our EBITDA (earnings before interest, tax, depreciation and amortization) margin increased from 22.0% in 2009 to 27.7% in 2010. The increase in our EBITDA margin was mainly due to our improving operation efficiency, effective cost control and efficient sophisticated management system, which led to the decrease in selling and distribution costs and administration expenses as a percentage of our total revenue from 49.2% in 2009 to 43.5% in 2010.

Income tax expenses

Our income tax expenses increased by 598.0% from RMB9.8 million in 2009 to RMB68.4 million in 2010, due to the increase in our profit before tax. Our effective income tax rate increased from 8.3% in 2009 to 20.5% in 2010, as a result of the significant increase in profit before tax contributed by Biostime Health, which was exempted from the Enterprise Income Tax ("EIT") in the two years ended 31 December 2008 and 2009, and is subject to EIT at a reduced rate of 11.0% in the year ended 31 December 2010.

Profit for the year

Our profit for the year increased by 145.3% from RMB108.3 million in 2009 to RMB265.7 million in 2010. Our net profit margin increased from 19.4% in 2009 to 21.5% in 2010. The increase in our net profit margin was mainly due to the increase in gross profit margin and decrease in selling and distribution costs as a percentage to total revenue, which is partly offset by the increase in administrative expenses as a percentage to our total revenue.

FINANCIAL CONDITION

Our primary liquidity requirements relate to investment in additional manufacturing facilities and equipment as well as funding our working capital and normal recurring expenses. Our cash requirements are primarily financed through a combination of cash generated from operating activities and the proceeds of capital contributions from our shareholders.

Cash flows from operating activities

In the year ended 31 December 2010, we had net cash generated from operating activities of RMB381.0 million, consisting of cash generated from operations of RMB424.7 million, partly offset by income tax paid of RMB43.7 million. Our cash generated from operations consisted of cash flow from operating activities of RMB341.9 million before working capital adjustments and net positive changes in working capital of RMB82.8 million.

Free cash flow

Free cash flow is defined as cash flow from operating activities less capital expenditures. Our free cash flow increased by 249.3% from RMB104.0 million in 2009 to RMB363.3 million in 2010, as a result of higher cash flow generated from operating activities, which was partly offset by the higher capital expenditures. Free cash flow productivity is defined as the ratio of free cash flow to profit for the year. Our free cash flow productivity increased from 96.0% in 2009 to 136.8% in 2010.

Cash flows used in investing activities

In the year ended 31 December 2010, our net cash used in investing activities was RMB9.4 million. Our net cash outflows for investing activities mainly consisted of: (i) purchase of property, plant and equipment of RMB17.4 million, which primarily related to acquisition of computers and POS machines as well as equipment for our information system and (ii) partly offset by decrease in restricted cash of RMB6.1 million, primarily related to guarantee deposits for letters of credits.

Working capital

Inventories

Our inventory increased from RMB81.0 million as of 31 December 2009 to RMB106.1 million as of 31 December 2010. The increase in our inventory was primarily due to the expansion of our business and product portfolio and an increase in our sales volumes.

Our average inventory turnover days decreased from 140 days in 2009 to 96 days in 2010, as a result of our continuous effort to enforce our effective inventory policy. Furthermore, our sales volume in 2010 was far beyond our expectation.

Trade and bills receivables

Our trade and bills receivables increased by 40.5% from RMB3.7 million as of 31 December 2009 to RMB5.2 million as of 31 December 2010, which was in line with the increase in revenue.

The average turnover days of trade and bills receivables decreased from 3 days in 2009 to 1 day in 2010, primarily due to more stringent enforcement of our credit policy.

Trade payables

Our trade payables increased from RMB39.7 million as of 31 December 2009 to RMB65.8 million as of 31 December 2010, primarily due to the expansion of our business and the growth of our sales volumes which resulted in corresponding increases in purchases from our suppliers.

Our suppliers generally grant us a credit period of 30 to 90 days. Our trade payables turnover days decreased from 65 days in 2009 to 54 days in 2010, mainly due to the shorter credit period for baby care products, which we launched in May 2010.

Capital expenditures

Our principal capital expenditures are related to the expansion of our production facilities, major maintenance, modernization of our existing plant and machinery. Our capital expenditures with respect to the purchase of property, plant and equipment were RMB5.5 million and RMB17.4 million for the years ended 31 December 2009 and 2010, respectively.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2010.

CAPITAL COMMITMENT

The Group had capital commitment amounting to RMB774,000 as at 31 December 2010.

BUSINESS REVIEW

As a premium provider of high-end pediatric nutritional and baby care products in China, the Group has been providing premium products to babies in China and is well received by the mothers. The Group focuses on high-end mother consumers and strives to offer them a full range of quality products under two distinctive brands — *Biostime*™, which focuses on premium pediatric nutritional products, and *BMcare*™ focusing on premium baby care products. The Group also owns an important service brand, *Mama100*™, embodying a membership platform for the members.

2010 was a milestone year for the Group as the Company was successfully listed on the Main Board of the Stock Exchange on 17 December 2010 (the "Listing Date") and raised net proceeds of approximately HK$1,595.6 million after consideration of over-allotment, which enabled the Group to access the international capital market while uplift the standard of its brand building and corporate governance.

In 2010, the booming baby products market in China stimulated mothers' demand for various kinds of baby products, especially those under a trustful brand. Such trend created favorable conditions for the growth of the Group due to its premium positioning. During the year, the Group accomplished total revenue of RMB1,233.6 million with net profit of RMB265.7 million, increasing 120.7% and 145.3%, respectively, as compared with 2009. In 2010, the Group achieved significant growth in every business segment as infant formulas, probiotic supplements, dried baby food products, and baby care products realized revenue of RMB793.6 million, RMB303.7 million, RMB97.8 million, and RMB38.5 million, respectively, corresponding to 64.3%, 24.6%, 8.0%, and 3.1% of total revenue. By the end of 2010, Mama100 registered members have amounted to 2.4 million, including 465,536 active members.

During the year, revenue of infant formulas was sustaining a strong growth at a rate of 233.3% after rapid growths in 2008 and 2009. In May 2010 Biostime Golden Care Infant Formulas ("Golden Care") was launched to consolidate the Group's market position in high-tier infant formulas market. By the end of 2010, Golden Care has realized revenue of RMB123.2 million, contributing 15.5% revenue of infant formulas, which indicated the Group's successful expansion of its market share in infant formulas market.

As China's largest pediatric probiotic supplements provider in terms of retail sales, the Group achieved tremendous success in probiotic supplements market from 2003 to 2009. In 2010 the Group continued to reinforce its leading position in pediatric probiotic supplements market. Due to effective management of marketing activities, the Group accomplished a 14.2% increase in revenue of probiotic supplements as compared with 2009. On the other hand, revenue of dried baby food products, another driver of the Group's revenue, increased by 77.8% as compared with 2009.

In May 2010, leveraging its market position in premium pediatric nutritional products, the Group began marketing baby care products for infants, children and nursing mothers under the *BMcare*™ brand. The Group expects a rapid revenue growth of *BMcare*™ products in the future and believes *BMcare*™ products will play a more important role over time.

The Group implemented precision marketing through the innovative Mama100 Membership Program, a key service program that offered the members access to the customer service and nursing consulting hotline, the mama100.com website, and membership points accumulation program. By the end of 2010, the Group has increased the number of Mama100 registered members by 67.5% and active members by 117.1% as compared with 2009.

The Group always put the quality safety of its products at first place and safeguards the quality of its products by multi-layer of quality control and assurance. All the products of the Group must pass four stringent control levels: quality control by suppliers, quality control by foreign authorities, inspections by PRC authorities, and quality control by the Group.

PROSPECTS

Looking forward into 2011, the Group is confident to capture the abundant opportunities in China's fast growing market of premium pediatric nutritional and baby care products. The Group will continue to increase its brand recognition among consumers and expand its distribution channels. The Group will further its development of Mama100 Membership Program. The Group will also firmly cooperate with its reputable suppliers and enrich its product range to satisfy the ever changing needs of high-end mother consumers.

To further enhance brand recognition, through mass media including television, magazines, and internet and Mama100 Membership Platform simultaneously, the Group will implement precision and in-depth brand communication to disseminate the mission of the Group: Holding mothers' hands to turn out Q babies with all-around development of smart IQ, love EQ and dynamic PQ. The Group plans to advertise its quality products on internet, magazines, and approximately 31 TV channels including provincial TV channels and CCTV channels in 2011.

Distribution channels are the important component of the Group's sophisticated value chain. The Group will continue to widen its nationwide geographic footprint by consolidating distribution channels which consists of specialty stores, retail sales organizations and pharmacies. By the end of 2010, the Group had increased the amount of VIP specialty stores to 3,687, Mama100 Member's Zones in pharmacies to 301, and retail sales organizations to 1,716. To further the development of its distribution channels, the Group aims to increase the amount of its VIP specialty stores to 4,500, Mama 100 Member's Zones to 400 in pharmacies, and retail sales organizations to 3,000 by the end of 2011.

The Group believes quality consumers are the key forces to move the Group forward to the future. By implementing precision marketing strategy, the Group intends to develop new Mama100 members while maintaining existing high-end membership base. The Group targets to own more than 1 million Mama100 active members in 2 to 3 years.

The Group, one of the leaders in the supreme-tier infant formula market in China, attaches great importance to the stable and quality supply of infant formulas. It has renewed a 3-year exclusive supply contract with the infant formulas supplier, Laiterie de Montaigu, which will significantly ensure supply stability as well as cost controllability of the infant formulas for 3 years.

As high-end mother consumers' demand became more and more diverse, the Group will continue to enrich the range of its quality pediatric nutritional and baby care products to high-end mother consumers. Besides launching oral care products such as tooth pastes for babies and expectant mothers in March 2011, the Group will introduce more new products such as milk calcium tablet products and DHA soft capsule products in the remainder of 2011.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The shares of the Company were listed on 17 December 2010 on the Main Board of the Stock Exchange. The total net proceeds from the Listing amounted to approximately HK$1,595.6 million after consideration of over-allotment, which are intended to be utilized in accordance with the proposed application set out in the section headed "Use of Proceeds" in the prospectus of the Company dated 3 December 2010.

PROPOSED DIVIDENDS

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board recommended the payment of a final dividend of HK$0.20 per ordinary share for the year ended 31 December 2010. Upon the approval being obtained in the forthcoming annual general meeting, the above dividend will be paid on or about 29 June 2011 to the shareholders whose names appear on the Register of Members of the Company at the close of business on 3 June 2011. Going forward, the Company intends to distribute approximately 40% of the Group's profit available for distribution for that year to shareholders as dividend.

CLOSURE OF REGISTER OF MEMBERS

The Company's Register of Members will be closed from Tuesday, 7 June 2011 to Thursday, 9 June 2011 (both dates inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed dividend and be entitled to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 3 June 2011.

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

Except for the global offering, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhancing the corporate governance of the Group, and the Board reviews and updates all such necessary measures in order to promote good corporate governance. The Company has adopted and complied with the provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2010.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of our Directors passed on 25 November 2010 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; oversight of internal control procedures of the Company. At present, the audit committee of the Company consists of three members who are Mr. Ngai Wai Fung, Mr. Tan Wee Seng and Mr. Luo Yun. Mr. Ngai Wai Fung is the chairman of the audit committee. The Company's and the Group's financial statements for the year ended 31 December 2010 have been reviewed by the Audit Committee.

REVIEW OF THE PRELIMINARY RESULTS ANNOUNCEMENT BY AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the websites of the Company (www.biostime.com.cn) and the Stock Exchange (www.hkex.com.hk). The annual report for the year ended 31 December 2010 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders and available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our employees for their efforts, dedication and commitment, all of which contributed to the growth of the Group, as well as our shareholders for their continuous support and confidence in our Group.

By order of the board of
Biostime International Holdings Limited
Luo Fei
Chairman

Hong Kong, 28 March 2011

As at the date of this announcement, the executive Directors are Mr. Luo Fei, Dr. Zhang Wenhui, Ms. Kong Qingjuan; the non-executive Director are Mr. Wu Xiong, Mr. Luo Yun, Mr. Chen Fufang; and the independent non-executive Directors are Mr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun.