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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2012	2011	% of Change
	RMB'000	*RMB'000*	
Revenue	**1,362,742**	867,550	57.1%
Gross profit	**893,596**	589,694	51.5%
Profit before tax	**372,889**	249,693	49.3%
Profit for the period	**273,926**	195,626	40.0%
Net cash flows from operating activities	**378,944**	185,741	104.0%
Basic earnings per share	**RMB0.46**	RMB0.32	43.8%
Interim dividend per share	**HK$0.23**	HK$0.16	43.8%

For the six months ended 30 June 2012, the Group recorded the following:

- Revenue amounted to RMB1,362.7 million, representing an increase of RMB495.1 million or 57.1% from RMB867.6 million in the corresponding period of 2011.
- Profit before tax amounted to RMB372.9 million, representing an increase of RMB123.2 million or 49.3% from RMB249.7 million in the corresponding period of 2011.
- Profit for the period amounted to RMB273.9 million, representing an increase of RMB78.3 million or 40.0% from RMB195.6 million in the corresponding period of 2011.
- Net cash flows from operating activities amounted to RMB378.9 million, representing an increase of RMB193.2 million or 104.0% from RMB185.7 million in the corresponding period of 2011.
- Basic earnings per share increased from RMB0.32 in the corresponding period of 2011 to RMB0.46, representing an increase of 43.8%. The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2012 was based on the ordinary shares in issue of 602,294,000 and adjusted by the weighted average number of shares purchased for the Share Award Scheme of 2,948,995.
- On 15 August 2012, the Board determined that an interim dividend of HK$0.23 per share to be paid on or about 13 September 2012 to the shareholders whose names appear on the register of members of the Company on 5 September 2012.

The board (the "Board") of directors (the "Directors") of Biostime International Holdings Limited (the "Company") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2012, together with the comparative figures for the corresponding period in 2011, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2012

		Six months ended 30 June	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*5*	**1,362,742**	867,550
Cost of sales		**(469,146)**	(277,856)
Gross profit		**893,596**	589,694
Other income and gains	*5*	**21,633**	29,736
Selling and distribution costs		**(475,382)**	(330,045)
Administrative expenses		**(49,825)**	(32,813)
Other expenses		**(16,958)**	(6,879)
Finance costs	*6*	**(175)**	—
PROFIT BEFORE TAX	*7*	**372,889**	249,693
Income tax expense	*8*	**(98,963)**	(54,067)
PROFIT FOR THE PERIOD		**273,926**	195,626
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**4,246**	(30,406)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**278,172**	165,220
Profit attributable to owners of the parent		**273,926**	195,626
Total comprehensive income attributable to owners of the parent		**278,172**	165,220
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	*10*		
Basic		**0.46**	0.32
Diluted		**0.45**	0.32

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**69,163**	59,420
Prepaid land lease payment	*12*	**20,356**	—
Intangible assets		**1,339**	1,423
Deposits	*13*	**7,350**	30,461
Time deposits	*18*	**457,466**	160,000
Deferred tax assets	*22*	**69,955**	36,397
Total non-current assets		**625,629**	287,701
CURRENT ASSETS			
Inventories	*14*	**360,053**	297,387
Trade and bills receivables	*15*	**1,715**	9,721
Prepayments, deposits and other receivables	*16*	**36,663**	29,156
Investments in principal guaranteed deposits	*17*	**171,802**	—
Cash and cash equivalents	*18*	**1,463,788**	1,814,101
Total current assets		**2,034,021**	2,150,365
CURRENT LIABILITIES			
Trade payables	*19*	**128,337**	67,200
Other payables and accruals	*20*	**377,286**	265,145
Interest-bearing bank loan	*21*	**81,522**	—
Tax payable		**86,348**	82,709
Total current liabilities		**673,493**	415,054
NET CURRENT ASSETS		**1,360,528**	1,735,311
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,986,157**	2,023,012
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*22*	**56,866**	45,452
Net assets		**1,929,291**	1,977,560
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*24*	**5,161**	5,161
Shares held for the Share Award Scheme		**(56,756)**	—
Reserves		**1,980,886**	1,678,987
Proposed dividends	*9*	**—**	293,412
Total equity		**1,929,291**	1,977,560

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2012

1. CORPORATE INFORMATION

Biostime International Holdings Limited was incorporated as an exempted company with limited liability in the Cayman Islands on 30 April 2010. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Group is principally engaged in the manufacture and sale of premium pediatric nutritional and baby care products.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Biostime Pharmaceuticals (China) Limited, a limited liability company incorporated in the British Virgin Islands (the "BVI").

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and IAS 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2011, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") (which also include International Accounting Standards ("IASs") and Interpretations) and the accounting policy for held-to-maturity investments as disclosed in note 3 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2011.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current period's unaudited interim condensed consolidated financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 — *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 — *Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 — *Deferred Tax: Recovery of Underlying Assets*

The adoption of these revised IFRSs has had no significant financial effect on these unaudited interim condensed consolidated financial statements.

In addition, the Group has applied the accounting policy for held-to-maturity investments during the period.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other expenses.

4. OPERATING SEGMENT INFORMATION

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

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

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

(c) the 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;

(d) the 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; and

(e) the nutrition supplements segment comprises the production of microencapsulated milk calcium chewable tablets and DHA chews/soft capsules for children, pregnant and lactating mothers.

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, head office and corporate expenses and finance costs are excluded from such measurement.

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

During the six months ended 30 June 2012 and 2011, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Six months ended 30 June 2012 (Unaudited)	Probiotic supplements *RMB'000*	Infant formulas *RMB'000*	Dried baby food products *RMB'000*	Baby care products *RMB'000*	Nutrition supplements *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:							
Sales to external customers	**164,461**	**1,094,732**	**54,361**	**32,760**	**16,428**	**—**	**1,362,742**
Segment results	**125,569**	**711,414**	**31,376**	**14,945**	**10,292**	**—**	**893,596**
Reconciliations:							
Interest income							**15,784**
Other income and unallocated gains							**5,849**
Corporate and other unallocated expenses							**(542,165)**
Finance costs							**(175)**
Profit before tax							**372,889**
Other segment information:							
Depreciation and amortisation	**1,443**	**990**	**483**	**76**	**343**	**7,040**	**10,375**
Write-down/(back) of inventories to net realisable value	**(57)**	**36**	**376**	**656**	**75**	**—**	**1,086**
Capital expenditure*	**398**	**30**	**20**	**40**	**232**	**19,401**	**20,121**

Six months ended 30 June 2011 (Unaudited)	Probiotic supplements *RMB'000*	Infant formulas *RMB'000*	Dried baby food products *RMB'000*	Baby care products *RMB'000*	Nutrition supplements *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:							
Sales to external customers	159,296	636,550	53,631	18,073	—	—	867,550
Segment results	127,066	424,266	32,058	6,304	—	—	589,694
Reconciliations:							
Interest income							7,392
Other income and unallocated gains							22,344
Corporate and other unallocated expenses							(369,737)
Finance costs							—
Profit before tax							249,693
Other segment information:							
Depreciation and amortisation	1,502	142	424	12	—	3,263	5,343
Write-down of inventories to net realisable value	17	6	122	331	—	—	476
Capital expenditure*	248	543	90	—	—	14,617	15,498

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

5. 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 period.

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	**1,362,742**	867,550
Other income and gains		
Bank interest income	**15,784**	7,392
Foreign exchange gain	**—**	21,169
Gains from investments in principal guaranteed deposits	**5,419**	—
Others	**430**	1,175
	21,633	29,736

6. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on a bank loan, wholly repayable within one year	**175**	—

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**468,060**	277,380
Depreciation *(note 11)*	**10,214**	5,302
Amortisation of intangible assets	**161**	41
Amortisation of land lease payment *(note 12)*	**175**	—
Research and development costs*	**8,765**	5,165
Loss on disposal of items of property, plant and equipment	**—**	(85)
Minimum lease payments under operating leases in respect of buildings	**14,154**	8,683
Employee benefit expenses:		
Wages and salaries	**148,051**	104,537
Pension scheme contributions (defined contribution schemes)	**23,669**	13,564
Staff welfare and other expenses	**14,231**	4,915
Equity-settled share option expense	**3,865**	2,678
Equity-settled share award scheme expense	**17,840**	—
	207,656	125,694
Foreign exchange differences, net	**6,149***	(21,169)
Write-down of inventories to net realisable value#	**1,086**	476

* *Included in "Other expenses" in the interim condensed consolidated statement of comprehensive income.*

\# *Included in "Cost of sales" in the interim condensed consolidated statement of comprehensive income.*

8. INCOME TAX

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current — Charge for the period		
Mainland China	**121,107**	68,434
Deferred *(note 22)*	**(22,144)**	(14,367)
Total tax charge for the period	**98,963**	54,067

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 six months ended 30 June 2012 and 2011.

PRC enterprise income tax ("EIT")

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable tax rates on the taxable profits for the periods, based on the existing legislation, interpretations and practices in respect thereof.

The Company's subsidiary, Biostime (Guangzhou) Health Products Limited ("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% and 12% for the years ended 31 December 2010 and 2011, respectively, and 12.5% for the year ending 31 December 2012.

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 six months ended 30 June 2012 and 2011.

9. DIVIDENDS

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Dividends on ordinary shares declared and paid during the period:		
Final dividend for 2011 — HK$0.27 (2010: HK$0.20) per ordinary share	**131,125**	101,397
Special dividend for 2011 — HK$0.33 (2010: Nil) per ordinary share	**160,265**	—
	291,390	101,397
Dividends on ordinary shares declared after the interim reporting date:		
Interim — HK$0.23 (2011: HK$0.16) per ordinary share	**112,593**	79,057

On 15 August 2012, the board of directors declared an interim dividend of HK$0.23 per ordinary share (2011: HK$0.16). As the interim dividend on ordinary shares is declared after the interim reporting date, such dividend is not recognised as a liability as at 30 June 2012.

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the parent used in the basic earnings per share calculation	**273,926**	195,626

	Six months ended 30 June	
	2012	2011
	Number of Shares	
Shares		
Weighted average number of ordinary shares in issue	602,294,000	602,166,556
Weighted average number of shares purchased for the Share Award Scheme	(2,948,995)	—
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	599,345,005	602,166,556
Effect of dilution — weighted average number of ordinary shares: Share options and awarded shares	12,180,396	8,419,327
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	611,525,401	610,585,883

The calculation of the diluted earnings per share amount for the period is based on the profit for the period attributable to owners of the parent. The weighted average number of ordinary shares used in the calculation is the adjusted weighted average number of ordinary shares in issue during the period, 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.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired property, plant and equipment with an aggregate cost of RMB20,044,000 (six months ended 30 June 2011: RMB15,232,000). During that period, depreciation of RMB10,214,000 (six months ended 30 June 2011: RMB5,302,000) was charged and property, plant and equipment with an aggregate carrying amount of RMB54,000 (six months ended 30 June 2011: RMB104,000) was disposed of by the Group.

12. PREPAID LAND LEASE PAYMENT

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Carrying amount at 1 January	**—**	—
Addition	**20,950**	—
Recognised during the period *(note 7)*	**(175)**	—
Carry amount at 30 June	**20,775**	—
Current portion included in prepayments, deposits and other receivables *(note 16)*	**(419)**	—
Non-current portion	**20,356**	—

The leasehold land is situated in Mainland China and is held under a medium term lease.

13. DEPOSITS

	30 June 2012 *RMB'000* **(Unaudited)**	31 December 2011 *RMB'000* (Audited)
Rental deposits	**5,554**	5,473
Deposits paid for the purchase of property, plant and equipment	**1,796**	4,038
Deposit paid for the purchase of land	**—**	20,950
	7,350	30,461

14. INVENTORIES

	30 June 2012 *RMB'000* **(Unaudited)**	31 December 2011 *RMB'000* (Audited)
Raw materials*	**284,140**	253,152
Work in progress	**3,559**	1,175
Finished goods	**72,354**	43,060
	360,053	297,387

* Raw materials balance mainly included finished infant formula products imported with original packaging of RMB199,161,000 (31 December 2011: RMB194,773,000), which are subject to bar code affixing.

15. TRADE AND BILLS RECEIVABLES

	30 June 2012 *RMB'000* **(Unaudited)**	31 December 2011 *RMB'000* (Audited)
Trade receivables	**727**	1,380
Bills receivable	**988**	8,341
	1,715	9,721

Advance payment is normally required from customers of the Group, except in very limited situation 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.

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 30 June 2012, based on the invoice date, is as follows:

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**145**	4,815
1 to 3 months	**1,087**	3,202
Over 3 months	**483**	1,704
	1,715	9,721

The above aged analysis included bills receivable balance of RMB988,000 (31 December 2011: RMB8,341,000).

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayments	**2,008**	8,704
Deposits	**778**	864
Other receivables	**23,298**	14,323
Prepaid expenses	**10,160**	5,265
Current portion of prepaid land lease payment *(note 12)*	**419**	—
	36,663	29,156

The above balances are unsecured, non-interest-bearing and have no fixed terms of repayment.

17. INVESTMENTS IN PRINCIPAL GUARANTEED DEPOSITS

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Investments in principal guaranteed deposits, in licensed banks in the PRC, at amortised cost	**171,802**	—

The investments in principal guaranteed deposits have terms of one year or less and have expected interest yield of 4.4% – 4.5% per annum. Pursuant to the underlying contracts or notices, the investments are principal guaranteed upon the maturity date.

18. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	30 June 2012 *RMB'000* **(Unaudited)**	31 December 2011 *RMB'000* (Audited)
Cash and bank balances	**1,125,792**	1,490,456
Time deposits	**795,462**	483,645
	1,921,254	1,974,101
Less: Non-pledged time deposits with original maturity of more than one year when acquired	**(457,466)**	(160,000)
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	**1,463,788**	1,814,101
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(337,996)**	(323,645)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	**1,125,792**	1,490,456

As at 30 June 2012, cash and bank balances and time deposits denominated in RMB of the subsidiaries in Mainland China amounted to RMB1,788,073,000 (2011: RMB976,989,000). The RMB of the subsidiaries in Mainland China is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods between three months and two years depending on the cash requirements of the Group, and earn interest at the respective time deposit rates. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

19. TRADE PAYABLES

An aged analysis of the trade payables as at 30 June 2012, based on the invoice date, is as follows:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within 1 month	**107,291**	51,222
1 to 3 months	**16,693**	15,682
Over 3 months	**4,353**	296
	128,337	67,200

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

20. OTHER PAYABLES AND ACCRUALS

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Advances from customers	**30,064**	29,115
Salaries and welfare payables	**85,564**	50,754
Accruals	**105,884**	74,709
Other tax payables	**50,775**	63,445
Deferred income *(note 23)*	**91,769**	18,309
Other payables	**13,230**	28,813
	377,286	265,145

The above balances are non-interest-bearing and have no fixed terms of repayment.

21. INTEREST-BEARING BANK LOAN

The bank loan is unsecured and interest-bearing at HIBOR plus 2.25% p.a.. The bank loan is denominated in Hong Kong dollars and repayable within one year.

22. DEFERRED TAX

The following are the major deferred tax assets/(liabilities) recognised and their movements during the period:

Deferred tax assets

	Provision for impairment of assets *RMB'000*	**Accrued liabilities and future deductible expenses** *RMB'000*	**Unrealised profit arising from intra-group transactions** *RMB'000*	**Deferred income** *RMB'000*	**Total** *RMB'000*
At 1 January 2012	**334**	**25,107**	**6,379**	**4,577**	**36,397**
Credited to the interim condensed consolidated statement of comprehensive income for the period *(note 8)*	**257**	**11,511**	**3,425**	**18,365**	**33,558**
At 30 June 2012 (Unaudited)	**591**	**36,618**	**9,804**	**22,942**	**69,955**
At 1 January 2011	105	2,575	1,438	1,651	5,769
Credited to the interim condensed consolidated statement of comprehensive income for the period *(note 8)*	30	7,929	4,048	10,167	22,174
At 30 June 2011 (Unaudited)	135	10,504	5,486	11,818	27,943

Deferred tax liabilities

	Withholding taxes on distributable earnings of subsidiaries in the PRC *RMB'000*
At 1 January 2012	**45,452**
Charged to the interim condensed consolidated statement of comprehensive income for the period *(note 8)*	**11,414**
At 30 June 2012 (Unaudited)	**56,866**
At 1 January 2011	5,760
Charged to the interim condensed consolidated statement of comprehensive income for the period *(note 8)*	7,807
At 30 June 2011 (Unaudited)	13,567

23. DEFERRED INCOME

	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer loyalty program		
At 1 January	**18,309**	6,603
Addition	**116,394**	84,416
Recognised as sales revenue during the period	**(42,934)**	(43,749)
At 30 June	**91,769**	47,270

24. SHARE CAPITAL

	30 June 2012	31 December 2011
	(Unaudited)	(Audited)
Authorised: 10,000,000,000 (31 December 2011: 10,000,000,000) ordinary shares of HK$0.01 each	**HK$100,000,000**	HK$100,000,000
Issued and fully paid: 602,294,000 (31 December 2011: 602,294,000) ordinary shares of HK$0.01 each	**HK$6,022,940**	HK$6,022,940
Equivalent to	**RMB5,161,000**	RMB5,161,000

BUSINESS REVIEW

During the first half of 2012, China's economy was experiencing lower GDP growth than in the past few years, while the baby products market in which the Group operates maintained steady growth due to the consistently strong demands for baby products. Despite the fact that the baby products market in China was highly competitive, the Group achieved remarkable results during the six months ended 30 June 2012.

Leveraging the established leading market position, the Group continued to sustain strong growth in both revenue and profit for the period. For the six months ended 30 June 2012, the Group recorded revenue of RMB1,362.7 million, representing an increase of 57.1% from the same period of last year. Profit before tax amounted to RMB372.9 million, increased by 49.3% compared with the same period of last year. Profit for the period amounted to RMB273.9 million, increased by 40.0% compared with the corresponding period of last year.

Thanks to the positive baby products market in China and the Group's unique business model, the infant formula business has been growing on a fast track. Revenue of infant formulas increased by 72.0% from RMB636.6 million in the six months ended 30 June 2011 to RMB1,094.7 million in the same period of 2012, accounting for 80.3% of total revenue. The Group's year-on-year revenue growth rates of high-tier and supreme-tier infant formulas were 80.0% and 63.0% respectively in the first half of 2012.

In order to diversify its product portfolio and extend the consumer lifecycle, the Group began marketing baby care products for infants, children and nursing mothers under the *BMcare*™ brand in May 2010. For the six months ended 30 June 2012, revenue of baby care products grew by 81.3% to RMB32.8 million as compared with the corresponding period of last year.

The Group launched its first product — probiotic supplements in 2003, and had achieved tremendous success in probiotic supplements market for nine years. For the six months ended 30 June 2012, the Group continued to reinforce its leading position in the pediatric probiotic supplements market, and accomplished a revenue of RMB164.5 million.

Mama100 Membership Program

The Mama100 Membership Program is a key service program, which aims to solidify relationships with and among the Group's consumers and sales channels, offering members access to various customer services including the nursing consulting hotline and *mama100.com* website, and a membership points accumulation program. Mama100 Membership Platform continued enhancing cross-selling and supporting a series of database marketing activities through real-time distribution management system and point accumulation system, enabling the Group to effectively lower new member acquisition cost and enhance members' loyalty. To further enhance its brand recognition, the Group continued investing in advertising its quality products on the Internet, magazines and TV channels, as well as professional parenting magazines and emerging media channels. By the end of the first half of 2012, the number of active members of the Group has increased to 1,179,732, representing growth of 72.1% as compared with 30 June 2011. For the six months ended 30 June 2012, the sales generated by Mama100 active members, calculated by the membership points, contributed to about 87.8% of the Group's total revenue.

Distribution Channels

The Group's nationwide distribution network supports its Mama100 Membership Platform to ensure the best service to its customers. VIP baby specialty stores, supermarkets and Mama100 Members' Zones in pharmacies selling the Group's products are equipped with point-of-sale membership points accumulation machines (or POS machines) to monitor the purchase behavior of Mama 100 Members, which provides data for further database marketing analysis.

To effectively and efficiently expand the sales and distribution channels, and to increase penetration into tier-3 cities, the Group increased the number of its sales offices in Mainland China from 62 to 87 by 30 June 2011. By the end of the first half of 2012, the number of VIP baby specialty stores, supermarkets and Mama100 Members' Zones in pharmacies increased to 8,321, 3,336 and 601, respectively, representing growth of 89.2%, 56.9% and 54.5%, respectively, as compared with 30 June 2011.

According to market research, the Group's penetration rate was still low, implying huge growth potential. Through a sophisticated real-time distribution management system, the Group maintained close monitoring of the inventories and sales of its products at the distributors' level to monitor retail prices, avoid channel conflict and stuffing, enabling the Group to maintain sustainable business growth.

Co-operation with Upstream Suppliers

The Group's research and development strategy focuses on joint-development and cooperation with its diversified upstream suppliers to continuously integrate innovative technology, high-quality ingredients and advanced production processes of premium products for infants, children and mothers. As the Group intended to cooperate with upstream suppliers in business expansion as stated in the use of IPO proceeds, the Group has signed a ten-year Financing and Supply Agreement on 21 June 2012 with Arla Foods Amba ("Arla Foods") after one year of co-development, in order to secure sufficient product supply to support the Group's rapid business growth. Now, the Group has 3 infant formula suppliers in Europe. Looking ahead, the Group will continue to cultivate its strong relationship with various upstream suppliers, and strengthen the Group's position as a premium brand with high product quality and safety.

LONG-TERM INCENTIVE TO EMPLOYEES

In order to recognize the contributions of certain Directors, senior management and employees of the Company and its subsidiaries, and to retain and motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company, the Company granted 2,315,882 awarded shares on 30 March 2012 and 1,734,739 awarded shares on 3 July 2012 under the Share Award Scheme, and granted 768,474 share options on 1 June 2012 under the Share Option Scheme.

PROSPECTS

The Group strives to reinforce its brand recognition with a focus on high-end markets by providing a full range of pediatric nutritional and baby care products. Looking ahead into the second half of 2012, the Group will launch stage-four pre-schooler formulas for children aged 3–7. The Group will also launch natural baby cereal products and new series baby care products for infants and children.

CHALLENGES

With the entry of new competitors, competition will be intensified within the baby products market. The Group believes that its competitive strengths, including high-quality products, recognized brand name, extensive distribution network and innovative database marketing strategies will increase its competitiveness.

Talented people are critical to the Group's continuous growth. In order to support the rapid growth, the Group will continue to develop its managerial staff; and continue to train, motivate, manage, and retain its employees. The Group will also adhere to an internal policy for selecting its regional distributors, which involves consideration of each regional distributor's background, distribution network and sales channels, financial condition and the industry experience of its personnel. The Group believes the successful database marketing strategies it has created in existing markets will continue to be replicated successfully in new geographical regions in the future.

RESULTS OF OPERATION

Revenue

The Group's revenue for the period ended 30 June 2012 amounted to RMB1,362.7 million, representing a 57.1% increase compared with the same period of last year. The following table sets forth the Group's revenue by product segment for the periods indicated:

	Six months ended 30 June			
	2012		2011	
	RMB'000	**% of total**	*RMB'000*	% of total
Probiotic supplements	**164,461**	**12.1%**	159,296	18.3%
Infant formulas	**1,094,732**	**80.3%**	636,550	73.4%
Dried baby food products	**54,361**	**4.0%**	53,631	6.2%
Baby care products	**32,760**	**2.4%**	18,073	2.1%
Nutrition supplements	**16,428**	**1.2%**	—	—
Total	**1,362,742**	**100.0%**	867,550	100.0%

Probiotic supplements

Revenue of probiotic supplements increased by 3.2% from RMB159.3 million in the six months ended 30 June 2011 to RMB164.5 million in the six months ended 30 June 2012.

Infant formulas

Revenue of infant formulas for the period ended 30 June 2012 increased by 72.0% to RMB1,094.7 million compared with the same period last year, accounting for 80.3% of the Group's total revenue. The increase was primarily driven by the increase in the number of active Mama100 members and distribution channel expansion, especially in tier-3 cities. For the six months ended 30 June 2012, the revenue of high-tier infant formulas, including Biostime Golden Care Infant Formulas, Biostime Premium Infant Formulas and Biostime Premium Mama Nutritional Formulas, increased by 80.0% compared with the same period of last year. The revenue of supreme-tier infant formulas, including Biostime Supreme Infant Formulas and Biostime Supreme Care Infant Formulas, increased by 63.0% compared with the corresponding period of last year.

Dried baby food products

Revenue of dried baby food products for the period ended 30 June 2012 increased by 1.4% to RMB54.4 million compared with the same period last year. After taking about six months to re-develop the formula and re-design the packages in the second half of 2011, in response to the new regulations in the PRC regarding baby cereal series products which came into effect in April 2011, and the new labeling regulations in the PRC regarding the organic series products, the sales of dried baby food products had recovered in 2012.

Baby care products

Revenue of baby care products for the period ended 30 June 2012 increased by 81.3% to RMB32.8 million compared with the same period last year. The double-digit growth was primarily a result of the precision marketing through the innovative Mama100 Membership Program. The Group's baby care products were gradually accepted by consumers.

Nutrition supplements

In September 2011, the Group established the nutrition supplements business by introducing to the Chinese market two new series of products, milk calcium chewable tablets and DHA chews/soft capsules for children and mothers. Revenue of nutrition supplements for the six months ended 30 June 2012 amounted to RMB16.4 million, accounting for 1.2% of the Group's total revenue.

Gross profit and gross profit margin

Gross profit increased by 51.5% from RMB589.7 million for the six months ended 30 June 2011 to RMB893.6 million for the six months ended 30 June 2012, which was in line with the increase in revenue. Gross profit margin decreased from 68.0% for the six months ended 30 June 2011 to 65.6% for the six months ended 30 June 2012, mainly due to the product mix impact, resulting from the higher revenue contribution from high-tier infant formulas, which has a lower gross profit margin than that of supreme-tier infant formulas, and the increased portion of revenue derived from infant formulas, which has a lower gross profit margin than that of probiotic supplements. The decrease in gross profit margin was also attributable to the higher purchase prices of infant formulas charged by the supplier and the increased labor costs of production.

Other income and gains

For the six months ended 30 June 2012, other income and gains amounted to RMB21.6 million, representing a 27.2% decrease compared with the same period last year. Other income and gains mainly consisted of interest income, gains from investments in principal guaranteed deposits and net foreign exchange gains. The decrease was primarily due to the unfavorable net foreign exchange loss, while partially offset by the growth in interest and investment income.

Selling and distribution costs

The effective implementation of database marketing activities through Mama100 Membership Program and sophisticated value chain management, enables the Group to effectively lower the new member acquisition cost and enhance members' loyalty. As a result, selling and distribution costs as a percentage of revenue decreased from 38.0% for the six months ended 30 June 2011 to 34.9% for the comparable period of 2012. Selling and distribution costs increased by 44.1% from RMB330.0 million for the six months ended 30 June 2011 to RMB475.4 million for the six months ended 30 June 2012. The increase was primarily due to the increase in promotional and advertising expenses, performance-based bonus and office expenses, which were in line with the Group's business growth and increase in sales of products.

Administrative expenses

Administrative expenses as a percentage of revenue decreased from 3.8% for the six months ended 30 June 2011 to 3.7% for the six months ended 30 June 2012. The decrease was primarily due to the Group's effective operation management and enhanced economies of scale. In order to support the business growth and solidify the Group's infrastructure, administrative expenses increased by 51.8% from RMB32.8 million for the six months ended 30 June 2011 to RMB49.8 million for the six months ended 30 June 2012.

Other expenses

For the six months ended 30 June 2012, other expenses amounted to RMB17.0 million, representing a 146.5% increase compared with the same period last year. Other expenses mainly consisted of R&D expenses, net foreign exchange loss and others. The increase was primarily due to the growth of R&D expenses and net foreign exchange loss.

Net foreign exchange loss of RMB6.1 million was recorded for the six months ended 30 June 2012, while a net foreign exchange gain of RMB21.2 million was recorded for the six months ended 30 June 2011. The net foreign exchange loss was primarily derived from the depreciation of the Renminbi and Euro against the Hong Kong dollar relating to the Company's bank deposits denominated in Renminbi and Euro. At the end of the reporting period, the deposits denominated in Renminbi and Euro were translated to Hong Kong dollar, the functional currency of the Company, using the closing exchange rate, and the exchange differences shall be recognized in profit or loss in the period in which they arise.

Income tax expenses

The effective income tax rate increased from 21.7% for the six months ended 30 June 2011 to 26.5% for the six months ended 30 June 2012. The increase was mainly due to the increased portion of profit before tax contributed by BiosTime, Inc. (Guangzhou), which was subject to corporate income tax rate of 25.0%, and the decreased portion of profit before tax contributed by Biostime (Guangzhou) Health Products Limited, which enjoyed a preferential corporate income tax rate of 12.5% in 2012. In line with the increase in the Group's profit before tax, income tax expense increased by 83.0% from RMB54.1 million for the six months ended 30 June 2011 to RMB99.0 million during the comparable period in 2012.

Operating profit for the period

Operating profit for the period[(1)] increased by 55.4% from RMB167.6 million for the six months ended 30 June 2011 to RMB260.5 million for the six months ended 30 June 2012. Operating profit for the period as a percentage of revenue decreased slightly from 19.3% in the first half of 2011 to 19.1% in the first half of 2012. The decrease was mainly due to the decrease in gross profit margin resulting from the product mix impact, which was partially offset by the decrease in selling and distribution costs and administrative expenses as a percentage of revenue, resulting from the effective implementation of database marketing and operation management.

Note:

(1) Operating profit for the period represented gains or losses from sources related to the typical activities of the business or organization. Operating profit for the period excluded bank interest income and charges, gains or losses from disposal of property or assets, currency exchange, donation and other atypical gains or losses.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2012, the Group had net cash generated from operating activities of RMB378.9 million, consisting of cash generated from operations of RMB496.4 million, partially offset by income tax paid of RMB117.5 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB385.2 million before working capital adjustments and net positive changes in working capital of RMB111.2 million.

Investing activities

For the six months ended 30 June 2012, net cash flows used in investing activities amounted to RMB481.1 million, after taking consideration of the investment in principal guaranteed deposits of RMB170.0 million and the increase in time deposits of RMB302.4 million. The Group's net cash outflows for investing activities mainly consisted of (i) purchase of property, plant and equipment and intangible assets of RMB18.5 million, which primarily related to acquisitions of computers, coding machines, vehicles and computer software for business use and (ii) partially offset by interest received from the matured time deposits of RMB9.8 million.

Financing activities

For the six months ended 30 June 2012, net cash used in financing activities amounted to RMB266.8 million, primarily reflecting the cash outflow from financing activities of RMB291.4 million for the distribution of final and special dividends for the year ended 31 December 2011 and RMB56.8 million for the purchase of shares held under the Share Award Scheme, partially offset by the cash inflow from financing activities of RMB81.5 million of proceeds from bank loans.

Cash and bank balances

As of 30 June 2012, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB1,463.8 million, decreased from RMB1,814.1 million as of 31 December 2011. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB457.5 million, the Group's cash and bank balances amounted to RMB1,921.3 million as of 30 June 2012. In addition, the Group placed RMB171.8 million in the investment in principal guaranteed deposits as of 30 June 2012.

Working capital cycle

The average turnover days of trade and bills receivables maintained at 1 day for the six months ended 30 June 2012 and 2011.

The average turnover days of inventories increased from 86 days for the six months ended 30 June 2011 to 126 days for the six months ended 30 June 2012, primarily because the Group stored up more inventories to satisfy the Group's anticipated sales growth, particularly for the infant formulas. On the other hand, the CIQ[(1)] under AQSIQ[(2)] had stricter quality inspection procedures for imported goods, and it took about two more weeks to obtain the sanitary certification. Moreover, in order to better manage the foreign transportation expenses, the Group changed the trade terms with some suppliers from CIF/CIP to EXW, and thus the inventory was recognized earlier. The inventory was recognized on the date of picking up at suppliers' warehouses under the EXW trade term, while it was recognized on the date of arrival at import port under CIF/CIP trade term.

The average turnover days of trade payables decreased from 47 days for the six months ended 30 June 2011 to 38 days for the six months ended 30 June 2012, which was mainly due to the increased purchase volume of infant formulas which has a shorter credit term than other products.

CORPORATE GOVERNANCE CODE

The Company had adopted the code provisions contained in the code of corporate governance practices (the "Old CG Code") set out in Appendix 14 to the Listing Rules effective since its adoption by the Company on 25 November 2010 until 19 March 2012. For the purpose of complying with the new code of corporate governance practices as set out in the Appendix 14 of the Listing Rules, which has taken effect from 1 April 2012, the Company adopted the revised code provisions contained in the new code of corporate governance practices (the "New CG Code") on 20 March 2012. Except for the deviations from code provisions A.2.1 and A.6.7 as disclosed below, the Company has complied with (i) the code provisions contained in the Old CG Code from 1 January 2012 to 19 March 2012; and (ii) the code provisions contained in the New CG Code from 20 March 2012 to 30 June 2012.

Under code provision A.2.1 of the Old CG Code and the New CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and the Chief Executive Officer should be clearly established and set out in writing.

Notes:

(1) Entry-Exit Inspection and Quarantine Bureau (出入境檢驗檢疫局).

(2) General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局), which is the administrative agency in the PRC in charge of, among other things, inspection of entry/exit of goods, import and export food safety, and certification.

Mr. Luo Fei, the Chairman of the Company, was also appointed as the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Under code provision A.6.7 of the new CG Code, non-executive Directors and independent non-executive Directors should attend general meetings.

Three non-executive Directors and an independent non-executive Director of the Company did not attend the annual general meeting of the Company held on 30 April 2012 due to other work commitments.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that it complies with the New CG Code and aligns with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2012.

The Company has also established written guidelines (the "Employees Written Guidelines") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the six months ended 30 June 2012.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this announcement complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012.

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

During the six months ended 30 June 2012, based on the Company's instructions, the trustee of the Share Award Scheme has purchased a total of 4,150,000 ordinary shares of the Company on the Stock Exchange at a total consideration of about HK$69,853,000.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.23 per share, representing approximately 41.4% of the Group's profit available for distribution for the period ended 30 June 2012. The interim dividend will be paid on or about 13 September 2012 to members whose names appear on the register of members of the Company on 5 September 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3 September 2012 to 5 September 2012, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 31 August 2012.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is also published on the websites of the Company (www.biostime.com.cn) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2012 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.

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

Hong Kong, 15 August 2012

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