# 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 2013

**FINANCIAL HIGHLIGHTS**

| | 2013<br>*RMB'000* | 2012<br>*RMB'000* | % of<br>Change |
|---|---|---|---|
| Revenue | **4,561,299** | 3,381,901 | **34.9%** |
| Gross profit | **2,975,120** | 2,228,946 | **33.5%** |
| Profit for the year excluding the one-off expense | **983,615** | 743,106 | **32.4%** |
| Profit for the year | **820,715** | 743,106 | **10.4%** |
| Basic earnings per share | **RMB1.37** | RMB1.24 | **10.5%** |
| Annual dividends per ordinary share | **HK$1.21** | HK$1.08 | **12.0%** |

For the year ended 31 December 2013, the Group recorded the followings:

- Revenue amounted to RMB4,561.3 million, representing an increase of RMB1,179.4 million or 34.9% from RMB3,381.9 million in 2012.

- Excluding the one-off expense of RMB162.9 million, net profit for the year amounted to RMB983.6 million, representing an increase of RMB240.5 million or 32.4% from RMB743.1 million in 2012.

- Profit for the year amounted to RMB820.7 million, representing an increase of RMB77.6 million or 10.4% from RMB743.1 million in 2012.

- Basic earnings per share increased from RMB1.24 in 2012 to RMB1.37, representing an increase of 10.5%.

- The Board has recommended the payment of a final dividend of HK$0.44 per ordinary share and a final special dividend of HK$0.33 per ordinary share for the year ended 31 December 2013. Taking into account the interim dividend and interim special dividend of HK$0.25 and HK$0.19 per ordinary share paid in September 2013, the annual dividends for the year ended 31 December 2013 will amount to HK$1.21 per ordinary share, accounting for approximately 70.3% of profit for the year ended 31 December 2013.

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 2013, together with the comparative figures for the corresponding period in 2012 as follows:

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*Year ended 31 December 2013*

| | *Notes* | **2013** *RMB'000* | 2012 *RMB'000* |
|---|---|---|---|
| REVENUE | 5 | **4,561,299** | 3,381,901 |
| Cost of sales | | **(1,586,179)** | (1,152,955) |
| Gross profit | | **2,975,120** | 2,228,946 |
| Other income and gains | 5 | **106,397** | 56,934 |
| Selling and distribution costs | | **(1,513,046)** | (1,077,721) |
| Administrative expenses | | **(177,313)** | (116,871) |
| Finance costs | 6 | **(10,589)** | (2,106) |
| Fine on the violation of Anti-Monopoly Law | 7 | **(162,900)** | – |
| Other expenses | | **(55,573)** | (38,609) |
| PROFIT BEFORE TAX | 8 | **1,162,096** | 1,050,573 |
| Income tax expense | 9 | **(341,381)** | (307,467) |
| PROFIT FOR THE YEAR | | **820,715** | 743,106 |
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **(823)** | 5,143 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **819,892** | 748,249 |
| Profit attributable to owners of the parent | | **820,715** | 743,106 |
| Total comprehensive income attributable to owners of the parent | | **819,892** | 748,249 |
| | | ***RMB*** | *RMB* |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 11 | | |
| Basic | | **1.37** | 1.24 |
| Diluted | | **1.34** | 1.22 |

Details of the dividends paid and proposed for the year are disclosed in note 10 to the financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2013*

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **322,022** | 77,074 |
| Prepaid land lease payments | | **84,261** | 20,147 |
| Goodwill | 12 | **143,000** | – |
| Intangible assets | | **6,109** | 1,151 |
| Bonds receivable | 13 | **98,092** | – |
| Loans receivable | 14 | **85,497** | 110,484 |
| Deposits | | **14,755** | 12,795 |
| Held-to-maturity investment | 15 | **21,240** | – |
| Time deposits | | **854,874** | 942,062 |
| Deferred tax assets | | **123,892** | 78,688 |
| Total non-current assets | | **1,753,742** | 1,242,401 |
| CURRENT ASSETS | | | |
| Inventories | 16 | **971,893** | 523,267 |
| Trade and bills receivables | 17 | **15,182** | 372 |
| Prepayments, deposits and other receivables | | **111,395** | 85,689 |
| Due from directors | | **2,000** | – |
| Loans receivable | 14 | **27,090** | 12,597 |
| Derivative financial instrument | 14 | **5,936** | – |
| Restricted bank deposit | | **70,000** | – |
| Cash and cash equivalents | | **1,662,836** | 1,669,066 |
| Total current assets | | **2,866,332** | 2,290,991 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 18 | **361,634** | 263,118 |
| Other payables and accruals | 19 | **719,838** | 443,817 |
| Interest-bearing bank loans | | **750,613** | 270,526 |
| Tax payable | | **212,725** | 155,790 |
| Total current liabilities | | **2,044,810** | 1,133,251 |
| NET CURRENT ASSETS | | **821,522** | 1,157,740 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **2,575,264** | 2,400,141 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | **59,671** | 77,489 |
| Net assets | | **2,515,593** | 2,322,652 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 20 | **5,161** | 5,161 |
| Reserves | | **2,143,222** | 1,903,534 |
| Proposed dividends | 10 | **367,210** | 413,957 |
| Total equity | | **2,515,593** | 2,322,652 |

# NOTES TO FINANCIAL STATEMENTS

*31 December 2013*

## 1. CORPORATE INFORMATION

Biostime International Holdings Limited was incorporated as an exempted company with limited liability in the Cayman Islands. 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.

## 2. 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.

They have been prepared under the historical cost convention except for a derivative financial instrument, which has been measured at fair value. 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 consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements:

| | |
|---|---|
| IFRS 1 Amendments | Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans* |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities* |
| IFRS 10 | *Consolidated Financial Statements* |
| IFRS 11 | *Joint Arrangements* |
| IFRS 12 | *Disclosure of Interests in Other Entities* |
| IFRS 10, IFRS 11 and IFRS 12 Amendments | Amendments to IFRS 10, IFRS 11 and IFRS 12 — *Transition Guidance* |
| IFRS 13 | *Fair Value Measurement* |
| IAS 1 Amendments | Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income* |
| IAS 19 Amendments | Amendments to IAS 19 *Employee Benefits* |
| IAS 27 (Revised) | *Separate Financial Statements* |
| IAS 28 (Revised) | *Investments in Associates and Joint Ventures* |
| IAS 36 Amendments | Amendments to IAS 36 *Impairment of Assets — Amended by Recoverable Amount Disclosures for Non-Financial Assets (early adopted)* |
| IFRIC 20 | *Stripping Costs in the Production Phase of a Surface Mine* |
| Annual Improvements 2009-2011 Cycle | Amendments to a number of IFRSs issued in May 2012 |

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

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. During the year, the Group changed the structure of its internal organisation and combined the dried body food products segment and the nutrition supplements segment into one reportable segment. The Group has four 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 seven years old and milk formulas for expectant and nursing mothers;

(c) the dried baby food and nutrition supplements segment comprises the production of dried baby food products made from natural foods for infants and young children, microencapsulated milk calcium chewable tablets and DHA chews/soft capsules for children, pregnant and lactating mothers; and

(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.

The corresponding items of segment information for 2012 have been restated.

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, finance costs, as well as head office and corporate expenses are excluded from this 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 years ended 31 December 2013 and 2012, 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 2013**

| | Probiotic supplements *RMB'000* | Infant formulas *RMB'000* | Dried baby food and nutrition supplements *RMB'000* | Baby care products *RMB'000* | Unallocated *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | |
| Sales to external customers | 458,164 | 3,752,116 | 198,778 | 152,241 | – | 4,561,299 |
| **Segment results** | 360,182 | 2,421,955 | 110,530 | 82,453 | – | 2,975,120 |
| *Reconciliations:* | | | | | | |
| Interest income | | | | | | 87,586 |
| Other income and unallocated gains | | | | | | 18,811 |
| Corporate and other unallocated expenses | | | | | | (1,908,832) |
| Finance costs | | | | | | (10,589) |
| Profit before tax | | | | | | 1,162,096 |
| **Other segment information:** | | | | | | |
| Depreciation and amortisation | 2,039 | 823 | 893 | 160 | 22,649 | 26,564 |
| Write-down/(back) of inventories to net realisable value | 35 | 3,430 | 431 | (189) | – | 3,707 |
| Capital expenditure* | 3,978 | 207,000 | 321 | 42 | 130,914 | 342,255 |

**Operating segment information for the year ended 31 December 2012**

| | Probiotic supplements RMB'000 | Infant formulas RMB'000 | Dried baby food and nutrition supplements RMB'000 | Baby care products RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | |
| Sales to external customers | 379,203 | 2,715,291 | 181,418 | 105,989 | – | 3,381,901 |
| **Segment results** | 294,777 | 1,768,756 | 107,251 | 58,162 | – | 2,228,946 |
| *Reconciliations:* | | | | | | |
| Interest income | | | | | | 44,435 |
| Other income and unallocated gains | | | | | | 12,499 |
| Corporate and other unallocated expenses | | | | | | (1,233,201) |
| Finance costs | | | | | | (2,106) |
| Profit before tax | | | | | | 1,050,573 |
| **Other segment information:** | | | | | | |
| Depreciation and amortisation | 2,975 | 2,017 | 1,513 | 174 | 15,896 | 22,575 |
| Write-down/(back) of inventories to net realisable value | (55) | 45 | 21 | 228 | – | 239 |
| Capital expenditure* | 4,491 | 29 | 521 | 132 | 55,514 | 60,687 |

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments 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 year.

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

| | **2013** ***RMB'000*** | 2012 *RMB'000* |
|---|---|---|
| **Revenue** | | |
| Sale of goods | **4,561,299** | 3,381,901 |
| **Other income and gains** | | |
| Bank interest income | **82,932** | 43,395 |
| Interest income from loans receivable | **4,654** | 1,040 |
| Interest from investments in principal guaranteed deposits | **–** | 11,524 |
| Foreign exchange gain | **14,021** | – |
| Service income | **1,193** | – |
| Government subsidies | **1,218** | – |
| Others | **2,379** | 975 |
| | **106,397** | 56,934 |

## 6. FINANCE COSTS

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on bank loans | **10,589** | 2,106 |

## 7. FINE ON THE VIOLATION OF ANTI-MONOPOLY LAW

On 6 August 2013, BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, received an Administrative Punishment Decision (the "Decision") issued by the National Development and Reform Commission of the People's Republic of China ("PRC") (the "NDRC"). According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of the Anti-Monopoly Law of the PRC (the "PRC AML") by providing fixed prices for its products in its distribution agreements with its distributors, and therefore should be subject to a fine in the amount of RMB162.9 million according to Article 46 of the PRC AML, which approximated to 6% of the sales of infant formula of the year 2012.

## 8. PROFIT BEFORE TAX

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

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories sold | **1,582,472** | 1,152,716 |
| Depreciation | **25,665** | 21,842 |
| Amortisation of intangible assets | **480** | 349 |
| Amortisation of land lease payment | **419** | 384 |
| Auditors' remuneration | **2,730** | 2,300 |
| Research and development costs* | **43,725** | 27,202 |
| Minimum lease payments under operating leases in respect of buildings | **38,371** | 32,277 |
| Loss on disposal of items of property, plant and equipment | **36** | – |
| Employee benefit expenses (including directors' and chief executive's remuneration): | | |
| Wages and salaries | **671,031** | 391,516 |
| Pension scheme contributions (defined contribution schemes) | **78,797** | 53,428 |
| Staff welfare and other expenses | **31,783** | 30,698 |
| Equity-settled share option expense | **10,075** | 8,346 |
| Equity-settled share award expense | **48,977** | 49,236 |
| | **840,663** | 533,224 |
| Foreign exchange differences, net | **(14,021)** | 7,184 |
| Write-down of inventories to net realisable value# | **3,707** | 239 |

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

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

## 9. INCOME TAX

| | 2013 *RMB'000* | 2012 *RMB'000* |
|---|---|---|
| Group: | | |
| Current – Charge for the year | | |
| Mainland China | **395,819** | 317,714 |
| Hong Kong | **8,401** | – |
| France | **183** | 7 |
| Deferred | **(63,022)** | (10,254) |
| Total tax charge for the year | **341,381** | 307,467 |

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**

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2012: nil).

**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 year, 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 was subject to EIT at reduced rates of 11%, 12% and 12.5% for the years ended 31 December 2010, 2011 and 2012, respectively. Biostime Health is subject to EIT at the rate of 25% for the year ended 31 December 2013.

**France corporate income tax**

France corporate income tax has been provided at the rate of 33.3% on the estimated assessable profits arising in France.

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:

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Group: | | |
| Profit before tax | **1,162,096** | 1,050,573 |
| Tax at the applicable PRC enterprise income tax rate | **290,524** | 262,643 |
| Overseas tax differential | **(3,902)** | 4 |
| Effect of tax concession for Biostime Health | **–** | (28,847) |
| Expenses not deductible for tax | **57,940** | 14,265 |
| Income not subject to tax | **(1,049)** | – |
| Tax losses not recognised | **5,313** | 84 |
| Effect of withholding tax at 5% (2012: 10%) on the distributable profits of the Group's subsidiaries in Mainland China | **30,569** | 59,318 |
| Refund of withholding tax payment at a lower rate of 5% | **(38,014)** | – |
| Tax charge at the Group's effective rate | **341,381** | 307,467 |

## 10. DIVIDENDS

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividends on ordinary shares declared and paid during the year: | | |
| Interim – HK$0.25 (2012: HK$0.23) per ordinary share | **119,437** | 112,593 |
| Interim special – HK$0.19 (2012: nil) per ordinary share | **90,773** | – |
| Proposed final – HK$0.44 (2012: HK$0.39) per ordinary share | **209,834** | 189,933 |
| Proposed special – HK$0.33 (2012: HK$0.46) per ordinary share | **157,376** | 224,024 |
| | **577,420** | 526,550 |

The proposed final and final special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 599,639,595 (2012: 598,731,488) in issue during the year.

The calculation of the diluted earnings per share amounts 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 adjusted weighted average 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.

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

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **820,715** | 743,106 |
| | **Number of Shares** | |
| **Shares** | | |
| Weighted average number of ordinary shares in issue | **602,294,000** | 602,294,000 |
| Weighted average number of shares held for the Share Award Scheme | **(2,654,405)** | (3,562,512) |
| Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation | **599,639,595** | 598,731,488 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options and awarded shares | **13,480,561** | 12,846,278 |
| Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation | **613,120,156** | 611,577,766 |

## 12. GOODWILL

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Cost:** | | |
| At 1 January | **–** | – |
| Acquisition of a subsidiary *(note 21)* | **143,000** | – |
| At 31 December | **143,000** | – |
| **Accumulated impairment:** | | |
| At 1 January | **–** | – |
| Impairment provided during the year | **–** | – |
| At 31 December | **–** | – |
| **Net carrying amount:** | | |
| At 31 December | **143,000** | – |

## 13 BONDS RECEIVABLE

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bonds receivable | **98,092** | – |

The Group entered into a Bond Subscription Agreement with Isigny Sainte Mère ("ISM") on 30 July 2013, pursuant to which ISM would issue, and the Group would subscribe for 17,477,075 bonds, with a nominal value of EUR1 per bond, in three separate tranches, at the subscription price equal to the nominal value of the bonds. As at 31 December 2013, the Group has subscribed for 11,651,384 bonds.

The bonds bear interest at a rate of 5% per annum on the outstanding principal amount of the bonds. The maturity date of the bonds shall be 30 July 2023, 10 years from the date of the Bond Subscription Agreement.

## 14. LOANS RECEIVABLE

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current portion of loans receivable | **27,090** | 12,597 |
| Loans receivable due after one year | **85,497** | 110,484 |
| Total loans receivable | **112,587** | 123,081 |
| Derivative financial instrument | **5,936** | – |

Loans receivable represent the loans provided to suppliers for the purpose of financing suppliers' production capacity to fulfill the purchase requirement of the Group and are repayable by instalments as stipulated in the loan agreements.

| | **Effective interest rate** | **Maturity** | **2013** | 2012 |
|---|---|---|---|---|
| | | | ***RMB'000*** | *RMB'000* |
| Denominated in United States dollars (the "USD") | 3.00% | By instalments before December 2018 | **33,863** | 33,942 |
| Denominated in Danish krones (the "DKK") | DKK CIBOR rate +1% | By instalments before January 2017 | **78,724** | 89,139 |
| Total loans receivable | | | **112,587** | 123,081 |

The carrying amounts of the current portion and non-current portion of loans receivable approximate to their fair values.

## 15. HELD-TO-MATURITY INVESTMENT

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Investment in ISM | **21,240** | – |

### Share Subscription

Pursuant to the Framework Agreement entered into with ISM on 1 July 2013, Biostime Pharma, a wholly-owned subsidiary of the Group, subscribed for 504,585 shares in the share capital of ISM ("Subscription Shares") with a nominal value of EUR5 per share and representing 20% of the total issued share capital of ISM as enlarged by the issuance of the Subscription Shares. Biostime Pharma is the only non-cooperative shareholder of ISM, while all the other shareholders of ISM are cooperative shareholders. ISM undertakes to use the proceeds from issuance of Subscription Shares exclusively for the purpose of the financing of the infant formula production and packaging industrial facility.

In accordance with applicable law, the subscription price was determined as equivalent to the Subscription Shares' nominal value with no premium applicable. Pursuant to the Framework Agreement and the bylaws of ISM ("Bylaws"), in the event that the Subscription Shares are redeemed by ISM as a result of withdrawal by Biostime Pharma or exclusion of Biostime Pharma by ISM from ISM's share capital, the redemption price of the Subscription Shares shall be equal to the nominal value of the Subscription Shares.

Pursuant to the relevant French law and the Bylaws, notwithstanding the number of shares held by Biostime Pharma, the voting rights of Biostime Pharma (represented by its delegates), as a non-cooperative shareholder, shall not exceed 10% of all voting rights in the general meeting of shareholders of ISM.

The Subscription Shares, as shares of ISM held by a non-cooperative shareholder, will give rise to the payment of interest at a rate equal to the interest rate applicable to the shares subscribed by the cooperative shareholders of ISM plus 2% per annum. The interest due in respect of the Subscription Shares shall be paid by priority with respect to the interest payable to the Cooperative Shareholders of ISM.

Biostime Pharma undertakes to hold the Subscription Shares for a minimum period of 15 years subject to (i) any early termination of the Manufacturing Agreement (with an initial term of 15 years commencing on 1 July 2013), or (ii) the withdrawal or exclusion of Biostime Pharma from ISM's share capital under certain situations as specified in the Framework Agreement and in accordance with the Bylaws. After the expiration of this 15-year period, Biostime Pharma shall remain as a non-cooperative shareholder of ISM as long as the Manufacturing Agreement is in force and effect, unless Biostime Pharma decides to withdraw from ISM pursuant to the Bylaws.

## 16. INVENTORIES

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **445,516** | 185,647 |
| Raw materials in transit | **375,522** | 277,425 |
| Work in progress | **2,881** | 2,486 |
| Finished goods | **147,974** | 57,709 |
| | **971,893** | 523,267 |

## 17. TRADE AND BILLS RECEIVABLES

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **475** | 272 |
| Bills receivable | **14,707** | 100 |
| Less: Impairment provision | **–** | – |
| | **15,182** | 372 |

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. 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:

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **7,605** | 150 |
| 1 to 3 months | **7,576** | 134 |
| Over 3 months | **1** | 88 |
| | **15,182** | 372 |

The above aged analysis included the bills receivable balance of RMB14,707,000 (2012: RMB100,000).

None of the above assets is either past due or impaired. Receivables that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default. Customers who trade on credit terms are subject to credit verification procedures.

## 18. TRADE AND BILLS PAYABLES

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **354,760** | 262,170 |
| Bills payable | **6,874** | 948 |
| | **361,634** | 263,118 |

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

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **356,646** | 244,842 |
| 1 to 3 months | **4,731** | 17,847 |
| Over 3 months | **257** | 429 |
| | **361,634** | 263,118 |

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

## 19. OTHER PAYABLES AND ACCRUALS

| | **2013** | 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Advances from customers | **10,824** | 25,233 |
| Salaries and welfare payables | **126,773** | 80,099 |
| Accruals | **323,624** | 198,257 |
| Other tax payables | **127,130** | 90,095 |
| Deferred income | **51,768** | 33,381 |
| Other payables | **79,719** | 16,752 |
| | **719,838** | 443,817 |

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

## 20. SHARE CAPITAL

**Shares**

| | **2013** | 2012 |
|---|---|---|
| Authorised: | | |
| 10,000,000,000 (2012: 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 (2012: 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 |

## 21. BUSINESS COMBINATION

On 30 December 2013, the Group acquired 100% interest in Changsha Yingke Nutrition Products Company Limited ("Changsha Yingke") from a third party. Changsha Yingke is engaged in the manufacture of infant formula products. The acquisition was made as part of the Group's strategy to manufacture certain of the Group's infant formula products in China. The purchase consideration for the acquisition was in the form of cash, with RMB177,000,000 paid at the acquisition date, RMB103,000,000 paid on 31 December 2013 and the remaining RMB70,000,000 would be settled pending several conditions.

The fair values of the identifiable assets and liabilities of Changsha Yingke as at the date of acquisition were as follows:

| | *Notes* | **Fair value recognised on acquisition** *RMB'000* |
|---|---|---|
| Property, plant and equipment | | 140,948 |
| Prepaid land lease payments | | 66,052 |
| Goodwill | 12 | 143,000 |
| Total identifiable net assets at fair value | | 350,000 |
| Total cash consideration | | |
| Satisfied by cash | | 280,000 |
| Other payable | | 70,000 |
| | | 350,000 |

The purchase price allocation of Changsha Yingke is still preliminary, pending the finalisation of valuation of certain property, plant and equipment and intangible assets, and the determination of the tax basis of the assets and liabilities acquired.

The Group incurred transaction costs of RMB706,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | *RMB'000* |
|---|---|
| Cash consideration | (350,000) |
| Cash and bank balances acquired | – |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (350,000) |
| Transaction costs of the acquisition included in cash flows from operating activities | (706) |
| | (350,706) |

No turnover was contributed by Changsha Yingke for the year ended 31 December 2013.

## BUSINESS REVIEW

As a premium provider of high-end pediatric nutritional and baby care products in China, the Group has been committed to research, development, manufacturing, marketing and sales of premium products for infants, young children and pregnant mothers. Thanks to the booming baby products market in China which is supported by a strong demand from Chinese mothers, the Group recorded a consistent and fast growth of its revenue at a CAGR of 54.6% from 2010 to 2013. For the year ended 31 December 2013, revenue of the Group reached RMB4,561.3 million. Excluding the one-off expense[(1)], net profit was at a record amount of RMB983.6 million. For the year 2013, growths of revenue and net profit excluding the one-off expense were 34.9% and 32.4% respectively, as compared with 2012.

During the year 2013, the Group has consistently invested in its core competencies and thus recorded a strong growth of 50.1% for the sales volume and 38.2% for the sales revenue in its infant formula business, despite the dynamic changes in the market. Among the sales revenue, the infant formula business under the new "Adimil" brand launched in September 2013, recorded sales revenue of RMB347.6 million.

Probiotic is the second biggest business segment of the Group with the highest gross margin among the product portfolio. During the year 2013, the sales revenue of probiotic business recorded a growth of 20.8% as compared with 2012 and contributed to 10.0% of the Group's total revenue. The Group has launched a new series of probiotic products to satisfy the different needs of consumers and expanded its probiotic product portfolio.

Baby care category, under the "BMcare" brand, remains important to the Group's multi-category expansion. Sales revenue of baby care products reached RMB152.2 million, and rapidly grew at 43.6% as compared with 2012. In January 2014, the Company entered into a joint venture agreement with Hangzhou Coco Healthcare Co., Ltd ("Coco Healthcare"), under which the two companies will jointly invest in five baby diaper production lines. This will enable the Group to launch a new series of baby diaper products to expand its business and reach a broader market in 2014.

Due to consumption upgrade and concern of food safety, Chinese mother consumers demand more high-end infant formula products with high quality. To further secure the scarcity of the European milk source and access to sophisticated full formula spray-dry technology, and to gain traceability from the farm to finished product, the Company entered into an equity investment and financing agreement with ISM, a renowned French dairy cooperative manufacturer, in July 2013. The total equity investment and financing from the Company to ISM amounts to EUR20.0 million. Upon completion of this equity investment, the Company now owns 20% of the total issued share capital of ISM and has assigned one person to be a member of the board of directors of ISM. By utilizing these proceeds and other financing, ISM is currently building a new infant formula production and packaging industrial facility located on ISM's premises. ISM will also supply the Group's recently acquired infant formula manufacturing facilities in China with its milk source. The Company and ISM are strengthening cooperation in the field of milk supplies, manufacturing, research and development, in order to ensure continuous supply and improvement of the Group's infant formula products distributed in the Chinese market.

The Group consistently invested in branding to increase brand recognition and enhance brand equity. In 2013, the Group further invested on advertising which resulted in an advertising expense increase of 15.2% from the year 2012. This expense increase is mainly from the investment in new media channels, such as internet TV, search engines and online social media.

*Note:*

(1) This one-off expense is a fine of RMB162.9 million.

Mama100 membership platform, which is an integrated database marketing platform providing various value-added services for members and member retail outlets, plays a significant role in the Group's success. It includes a professional magazine, nursing consulting hotline, mama100 mobile app, mama100.com website, membership point accumulation program and training program. This enables the Group to enhance cross-selling and consumer loyalty while supporting a series of database marketing activities to achieve higher sales and promotion efficiency. The average number of Mama100 active members of 2013 increased to 1,741,693 at the rate of 44.8% as compared with that of 2012, reaching 1,811,492 as of the end of 2013. The number of member retail outlets as of the end of 2013 increased to 20,709 at the rate of 32.7% as compared with 2012. The sales generated by Mama100 active members contributed to about 88.9% of the Group's total revenue. In 2013, Mama100 call centre received 271,706 calls and Mama100 "Children" magazine issued 658,454 copies on average each month.

The mobile network and mobile applications have been changing the way consumers socialize, obtain information and shop. In September 2013, the Group, together with the current retail outlet partners and third party solution providers, established an Online-to-Offline ("O2O") business model by integrating online ordering platforms and offline logistic resources of retail outlets. This will strengthen the collaboration with value-chain partners while creating additional benefits for retail outlets by introducing new sales through the online platform and improving operation efficiency. Moreover, this will give consumers great convenience to obtain information about parenting, make inquiries, redeem points, and do shopping online through the Mama100 app. Since O2O was launched, the points accumulated from online orders contributed to 9.0% of the Group's total accumulated points in the same period.

The Group's advanced information systems generates a huge volume of various kinds of data, which enables the management to monitor the business from different perspectives. Therefore, storing, processing and analyzing the data in a secure way is critical to the Group's information security, operation excellence and decision making. During the year 2013, the Group implemented an information security management system which covers a wide range of the Group's products, services and operations. In December 2013, the Group received the Information Security Management System Dual Certification accredited by United Kingdom Accreditation Service (UKAS) and China National Accreditation Service (CNAS), thus demonstrating its conformity with international and domestic information security management standards, namely ISO/IEC 27001:2005 and GB/T 22080:2008, respectively.

To support the expansion of sales and distribution channel into lower tier cities, the Group increased the number of its sales offices in Mainland China from 87 to 104 during the year and kept recruiting new people and providing extensive training to the organization. By the end of the year 2013, the Group registered increases in the number of VIP baby specialty stores to 13,952, VIP pharmacies[(1)] to 1,522, and retail sales organizations to 5,235 or by 34.1%, 48.1% and 25.4%, as compared with 2012, respectively. At the same time, the Group has continued to track the inventory and sales of its products at the distributors' level to avoid channel conflict and stuffing. This has enabled the Group to maintain a sustainable business growth through an advanced real-time distribution management system. According to the real-time distribution management system, the inventory turnover days of the Group's distributors was about 32 days on average in 2013.

Along with the Group's strategy of sales and distribution channel expansion, the Company acquired Changsha Yingke, which is engaged in the manufacturing of infant formula products, for a total cash consideration of RMB350 million. This acquisition will expand the Group's production capacity for new "Adimil" series of infant formulas which will target high-end markets in fourth- and fifth-tier cities in China.

*Note:*

(1) VIP pharmacies include pharmacies with Mama100 Member's Zones and pharmacies that meet the Group's special display requirements.

The Group is keen to use the best available ingredients for its products and invest in clinical studies in different fields. For example, in 2013, the Group cooperated with its strategic ingredient supplier Enzymotec Ltd (stock code on NASDAQ: ENZY), a world leading provider of structured lipids for infant nutrition use, and recently completed a clinical study on β-vegetable oil, which is one of the key ingredients used in Biostime's infant formula products. This study clinically proves the benefits of this specific ingredient on Chinese babies.

While developing its procurement capacity and expanding its product portfolio, the Group remained focused on innovating new products, engineering technology and maintaining high quality inspection standards by cooperating with global raw material suppliers and world-wide research institutes. Starting from 1 January 2014, the Group has opened an infant formula product traceability system on its official website for consumers to inquire about the key information of the Group's infant formula products with the manufacturing date after 1 January 2013. Such information includes raw milk source country, product provenance, manufacturing date and the certificate of inspection and quarantine on imported goods issued by Entry-Exit Inspection and Quarantine Bureau.

The Group always values its employees as the most important asset and consistently invests in its organizational development so as to attract, retain and inspire the best talent. Competitive compensation, various training and educational opportunities are what the Group offers to fulfill its right talent. As at 31 December 2013, the Group had approximately 3,000 employees in Mainland China, Hong Kong and France. In 2013, the Group paid a total of RMB61.0 million to the trustee for the purchase of ordinary shares of the Company for awarding its employees under the share award scheme (the "Share Award Scheme") which was adopted in November 2011. In November 2013, in addition to the existing share option schemes and Share Award Scheme, the Group further adopted a 2013 share award scheme to extend the share incentive system, enabling the Group more options to award and motivate its employees. The Group was recognized and named the "2013 Best Employer" by Guangzhou Daily, one of the most popular media outlets in southern China, for the second consecutive year.

## PROSPECTS

In November 2013, The Third Plenary Session of the 18th Communist Party of China announced a major adjustment on population and family planning policy. Adhering to the basic policy of the family planning, the new policy allows couples to have two children if one of them is an only-child. The Group believes that this policy adjustment will give a boost to the number of new born babies in the coming years and hence create a great business opportunity for the baby-related industries. The Group is therefore confident about its business prospect and reacts quickly to further capture this upside trend in China's fast growing market of premium pediatric nutritional products, baby care products and childhood education and psychological care services.

### Channel Expansion and Brand Building

In view of the business opportunities in lower tier cities, the Group will continue to develop its sales organization and increase product penetration by consolidating distribution channels, which consist of baby specialty stores, retail sales organizations and pharmacies. By the end of 2014, the Group is targeted to increase the number of its VIP baby specialty stores to 17,000, VIP pharmacies to 2,000 and supermarkets to 6,000. The Group also intends to recruit more new Mama100 members while retaining the existing high-end membership base and is targeted to own over three million Mama100 active members within three years.

Consistently investing in brand building through its well established multi-channel marketing platform is one of the key growth drivers of the Group's business. The Group will continue to invest in advertisements on traditional media circuits such as CCTV and 31 provincial TV stations, parenting magazines and in-store displays, while increasing exposure on internet TV, search engines, mobile terminals, new social networking platforms and other emerging media vehicles, so as to sustain and improve the Group's premium brand image.

The Group now has five product and service brands, namely "Biostime", "Adimil", "BMcare", "Parenting Power" and "Mama100". In order to ensure dedicated efforts in growing each brand and maximize the value of Mama100 as an integrated membership service and database marketing platform, the Group is conducting an internal organizational restructuring to set up four independent business units, sharing the support from Mama100 platform and other background departments. The Group believes that this new structure will support its future business growth by creating brand cooperation synergy, improving company productivity and better leveraging its comprehensive database.

**New Initiatives**

In response to the Group's market research and consumers' feedback which shows a strong demand for high quality infant formulas in the fourth- and fifth-tier cities in China, the Group is developing a new series of infant formulas, under the "Adimil" brand. These new product series will be manufactured in the Group's manufacturing facilities in China, using the raw milk source imported from Europe. Meanwhile, the Group will broaden its baby diaper category, under the "BMcare" brand, by introducing new baby diaper products manufactured by its joint venture with Coco Healthcare. The Group will also continue to explore and launch new products in addition to the Biostime branded infant formulas and other products in order to capture emerging business opportunities.

**Member Service**

It is the goal of the Group's membership platform to understand and fulfill its members' childcare needs in a more comprehensive way. Through Mama100, the Group is able to interact directly with members and gather very large volumes of members' purchasing data. After data analysis, the Group will be able to design and deliver better member services in order to improve the satisfaction of its member consumers.

The Group introduced a mobile app to its Mama100 members, enabling them to obtain information about parenting, make inquiries, redeem points and place online purchasing orders through the app. In 2014, the Group will accelerate the promotion of Mama100 app to increase the number of online active members and the volume of app download.

In the beginning of 2014, the Group launched two main online new initiatives, namely the "Mama100 WeChat Store" and the "JD.COM Mama100 Flagship Store". These online ordering platforms, together with the Mama100 app, will bring more shopping convenience to the Group's members. The Group will continue to upgrade and promote this newly launched function and develop other online ordering platforms with third party solution providers in 2014.

In order to provide professional and scientific guidance and services about baby and toddler's early education and psychological care, the Group has been conducting joint development of child and parenting educational programs in collaboration with world-renowned experts and organizations in Europe and the USA under the "Parenting Power" brand. In 2014, the Group intends to cooperate with third party organizations to provide the early education program to its members.

**R&D and Quality Management**

The Group's Guangzhou R&D and Quality Analysis Centre is expected to be completed and start to operate at the end of 2014 after two years of construction. The Group believes that this new center will strengthen the Group's long-term R&D and quality management capability. Simultaneously, the Group is cooperating with Chinese Center for Diseases Control and Prevention by supporting research projects through a specific grant. In 2014, the Group will support about 50 projects in the field of nutrition, targeting mothers and children. This is an excellent opportunity for collaborating with key opinion leaders in nutrition research in China which ultimately will lead to better scientific knowledge and community welfare. The Group will continue to expand its R&D team in Europe and explore research projects with external institutes globally.

Stringent quality assurance and control is a key building block of the Group's business fundamental. In 2014, the Group will set up a new inspection center in its newly acquired Changsha infant formula manufacturing site to provide technical support to production process as well as to maintain quality control standards for the infant formula products produced locally.

### Business Model Innovation

The traditional brand companies need to react to the irreversible trend of the wide use of mobile network and prepare for the emerging business opportunities in order to succeed in the highly competitive market. By cooperating with value chain partners and third party solution providers, the Group has gradually made its O2O vision from a conceptual idea to an executable plan. This is a long journey of innovation and the Group will keep exploring the new projects to consummate the O2O business model.

Mama100, as a membership and marketing platform, provides the Group's management with huge volume of various market data, such as member data, channel data and retail outlet data. Leveraging on this comprehensive database, the Group can conduct precision data analysis in every dimension of business operation to support decision-making activities. This ability will eventually turn the business model into what is called one-to-one precision marketing or personalization, through the sophisticated member database analysis. The Group will continue to develop the Mama100 platform to gain a more comprehensive record of member purchasing behavior, parenting information and individual preferences when the Group is interacting with its members, and to improve the database and analysis methodology to generate real-time market intelligence and feasible business action plan.

## CHALLENGES

Competition will become fierce as the promising prospect of the high-end pediatric nutritional and baby care market will continue to attract new entrants in the future. However, with its market know-how and unique business model, the Group is confident in its ability to achieve success in 2014.

The Group is exposed to certain foreign exchange impacts because the majority of its products and raw materials are imported from Europe and the USA. The Group will strengthen its supply chain management, increase operation efficiency and leverage economies of scale in order to minimize the fluctuation and maintain profitability.

## SOCIAL RESPONSIBILITY

In cooperation with the Chinese Red Cross Foundation, the Group established the "Biostime China Foundation for Mother and Child" in 2007 and has donated RMB0.1 to this foundation for every product unit sold. Since its inception, the foundation has raised a total of approximately RMB11.0 million by the end of 2013 and has assisted over 350 children and mothers suffering from serious illnesses. In particular, RMB1.0 million has been donated by the foundation for the relief and recontructing in Ya'an, Sichuan Province after an earthquake took place there in April 2013.

The Group also cooperated with the Women and Infant Health Centre under China Centre for Disease Control and Prevention to establish the "Biostime Mother and Infant Nutrition and Health Research Fund" in 2011. This fund is dedicated to supporting researches on the health and well-being of women and infants, including disease prevention and control. The Group will continuously support and participate in such researches in order to contribute to the community welfare.

## RESULTS OF OPERATION

### Revenue

For the year ended 31 December 2013, revenue increased by 34.9% to RMB4,561.3 million as compared with 2012, reflecting the continuous increase in sales volumes and improvements in product mix. The following table sets forth the Group's revenue by product segment for the years indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | 2012 | |
| | ***RMB'000*** | *RMB'000* | **% of growth** |
| Probiotic supplements | **458,164** | 379,203 | 20.8% |
| Infant formulas | **3,752,116** | 2,715,291 | 38.2% |
| Dried baby food and nutrition supplements | **198,778** | 181,418 | 9.6% |
| Baby care products | **152,241** | 105,989 | 43.6% |
| Total | **4,561,299** | 3,381,901 | 34.9% |

*Probiotic supplements*

Revenue of probiotic supplements increased by 20.8% from RMB379.2 million in 2012 to RMB458.2 million in 2013. The increase was mainly due to the increased sales volume and sales contribution from the launch of new series probiotic product in the first half of 2013.

*Infant formulas*

As the Group's largest product segment, revenue of infant formulas experienced a solid year-on-year increase by 38.2% to RMB3,752.1 million in 2013, accounting for 82.3% of the Group's total revenue. The revenue growth reflected sales volume increase and product portfolio growth throughout the segment. Driven by the increase in the number of active Mama100 members, ever-growing market reputation and the expansion of distribution channel, the sales volume of infant formula increased by 50.1% in 2013 compared with 2012. In the second half of 2013, the Group introduced a new infant formula brand – Adimil (素加) to satisfy the diversified high-end consumers' needs in selecting infant formulas. By the end of 2013, Adimil had been receiving a positive response from the market and recorded a revenue amounted to RMB347.6 million.

*Dried baby food and nutrition supplements*

Revenue of dried baby food and nutrition supplements increased by 9.6% to RMB198.8 million in 2013 compared with 2012. The increase was mainly attributable to the continuous growth in sales volume of both baby cereal products and nutrition supplements.

*Baby care products*

Revenue of baby care products increased by 43.6% to RMB152.2 million in 2013 compared with 2012. The Group's precise database marketing and cross-selling strategy had proven to be exceptionally effective to drive revenue increase in baby care products segment.

### Gross profit and gross profit margin

Gross profit increased by 33.5% from RMB2,228.9 million in 2012 to RMB2,975.1 million in 2013 primarily due to the increase in revenue. Gross profit margin decreased slightly from 65.9% in 2012 to 65.2% in 2013. The decrease in gross profit margin mainly resulted from the product mix impact, the decrease in ex-factory prices of certain infant formula products and the increased cost on rewards to consumers of infant formula products with addition 50% of accumulation points.

**Other income and gains**

Other income and gains increased by 86.9% to RMB106.4 million in 2013 compared with 2012. Other income and gains mainly consisted of interest income of RMB87.6 million, net exchange gain of RMB14.0 million and others. The increase was mainly due to the increase in interest income and the record of net foreign exchange gain in 2013 instead of the net exchange loss in 2012.

**Selling and distribution costs**

Selling and distribution costs increased by 40.4% from RMB1,077.7 million in 2012 to RMB1,513.0 million in 2013, primarily as the result of an increase in the Group's advertising and promotional expenses in relation to the consumer communication and brand building. The increase was also attributable to the increase in staff costs and office expenses resulting from the growth of headcounts. To facilitate the expansion of sales and distribution channels, especially to increase the penetration into low-tier cities, the Group increased the number of its sales offices in Mainland China from 87 to 104 in the second half of 2013 and kept providing extensive training to its sales team in order to support the expansion of its business all across China. As a result, the selling and distribution costs as a percentage of revenue increased from 31.9% in 2012 to 33.2% in 2013.

**Administrative expenses**

The Group continue to increase headcount of managerial employees and training expenses to better support the business growth and solidify the Group's infrastructure. Therefore, administrative expenses increased by 51.7% from RMB116.9 million in 2012 to RMB177.3 million in 2013. Administrative expenses as a percentage of revenue increased slightly from 3.5% in 2012 to 3.9% in 2013.

**Other expenses**

For the year ended 31 December 2013, other expenses increased by 43.9% to RMB55.6 million compared with the year ended 31 December 2012. Other expenses mainly consisted of R&D expenses and others. The R&D expenses increased by 60.7% to RMB43.7 million in 2013 compared with 2012, resulting from the increased joint development expenses with European infant formula suppliers to provide Chinese consumers with safe and premium infant formulas. R&D expenses as a percentage of revenue increased from 0.8% for the year ended 31 December 2012 to 1.0% for the year ended 31 December 2013.

**Fine on the violation of Anti-Monopoly Law**

In June 2013, Biostime Guangzhou, a wholly-owned subsidiary of the Company, was under an investigation by the NDRC in relation to an alleged violation of Article 14 of PRC AML. On 6 August 2013, the investigation was concluded and Biostime Guangzhou received the Decision issued by the NDRC. According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of the PRC AML by providing fixed prices for its products in its distribution agreements with its distributors, and therefore shall be subject to a fine in the amount of RMB162.9 million according to Article 46 of the PRC AML. The Group shall continue to improve its internal control system to ensure that its various business decisions comply with the applicable PRC laws and regulations.

**Income tax expenses**

For the year ended 31 December 2013, income tax expenses amounted to RMB341.4 million, representing an increase of 11.0% compared with 2012. The increase was in line with the increase in the Group's profit before tax. The effective income tax rate increased slightly from 29.3% in 2012 to 29.4% in 2013. The effective income tax rate kept stable as results of (i) the impact of the one-off fine imposed by the NDRC by approximately 3.5 percentage points, which was subject to income tax under the existing PRC tax rules; (ii) the increased applicable income tax rate of 25.0% for Biostime Health, which enjoyed a preferential corporate income tax rate of 12.5% in 2012; and (iii) partially offset by the decreased applicable withholding tax rate from 10.0% in 2012 to 5.0% in 2013 arising from the distribution of retained profits of the Company's subsidiaries in Mainland China. In the second half of 2013, the Company was successfully recognized as a resident of Hong Kong under the "Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排)", and enjoyed a lower withholding tax rate of 5.0%.

### Profit for the year

As compared with 2012, profit for the year increased from RMB743.1 million to RMB820.7 million in 2013, representing a growth of 10.4%. Excluding the one-off fine of RMB162.9 million imposed by the NDRC, profit for the year ended 31 December 2013 amounted to RMB983.6 million, representing an increase of 32.4% as compared with the year ended 31 December 2012.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating activities

For the year ended 31 December 2013, the Group had net cash generated from operating activities of RMB660.5 million, consisting of cash generated from operations of RMB1,007.9 million, partially offset by income tax paid of RMB347.4 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB1,174.5 million before working capital adjustments and net negative changes in working capital of RMB166.6 million.

### Investing activities

For the year ended 31 December 2013, net cash flows used in investing activities amounted to RMB80.7 million. The Group's net cash outflows for investing activities mainly consisted of (i) outflow for construction in progress and purchase of property, plant and equipment of RMB135.7 million, (ii) acquisition of a RPC subsidiary of RMB350.0 million and (iii) partially offset by the decrease in time deposit of RMB457.6 million.

### Financing activities

For the year ended 31 December 2013, net cash used in financing activities amounted to RMB214.7 million, primarily reflecting the cash outflow from financing activities of (i) RMB621.9 million for the distribution of final and special dividends for the year ended 31 December 2012 and interim and interim special dividends for the six month ended 30 June 2013, and (ii) payment of RMB64.1 million for the purchase of ordinary shares of the Company under the Share Award Scheme. The above cash outflow was partially offset by the cash inflow of RMB480.1 million of net proceeds from bank loans.

### Cash and bank balances

As of 31 December 2013, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,662.8 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB854.9 million, the Group's cash and bank balances amounted to RMB2,517.7 million as of 31 December 2013.

### Interest-bearing bank loans

As at 31 December 2013, the Group's outstanding interest-bearing bank loans amounted to RMB750.6 million, of which all were repayable within one year. The gearing ratio was 16.2%. The gearing ratio is calculated by dividing total interest-bearing bank loans by total assets.

**Inventories**

| | As of 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **445,516** | 185,647 |
| Raw materials in transit | **375,522** | 277,425 |
| Work in progress | **2,881** | 2,486 |
| Finished goods | **147,974** | 57,709 |
| Total | **971,893** | 523,267 |

Raw materials mainly included i) probiotic powder, dried baby food ingredients and other materials purchased from the Group's material suppliers; ii) finished infant formula products, dried baby food products, baby care products and nutrition supplement products imported with original packaging from the Group's product suppliers, which were subject to bar code affixing; and iii) packaging materials. Raw materials in transit represented the imported raw materials which were still in transit or under the quality inspection procedures performed by CIQ[1] under AQSIQ[2].

**Working capital cycle**

The Group's cash cycle increased from 79 days in 2012 to 100 days in 2013.

The average turnover days of trade and bills receivables maintained at 1 day for the years ended 31 December 2013 and 2012.

The average turnover days of inventories increased from 130 days for the year ended 31 December 2012 to 170 days for the year ended 31 December 2013, primarily due to (i) the increase in inventories resulted from the introduction of the new series infant formula – *Adimil*. Excluding the Adimil infant formulas purchased, the average turnover days of inventories for the year ended 31 December 2013 was around 160 days; (ii) the stricter quality inspection procedures for imported goods performed by the CIQ under AQSIQ; and (iii) the increased inventories stored up to satisfy the increasing market demand. Taking no account of the raw materials in transit, the average turnover days of inventories increased from 83 days in 2012 to 96 days in 2013, resulting from the increased inventories stored up to satisfy the increasing market demand.

The average turnover days of trade payables increased from 52 days in 2012 to 71 days in 2013, which was mainly due to the increased trade payables as at the year end, which was still within the credit terms.

## USE OF PROCEEDS

The shares of the Company became listed on the Main Board of The Stock Exchange of Hong Kong Limited (The "Stock Exchange") on 17 December 2010 with net proceeds from the global offering of the Company's shares of approximately HK$1,595.6 million, taking into account the net proceeds from the partial exercise of the over-allotment option.

*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, inspectionof entry/exit of goods, import and export food safety, and certification.

The use of the net proceeds from the global offering up to 31 December 2013 was as follows:

| | Available to utilize<br>*HK$ million* | Utilized as at 31 December 2013<br>*HK$ million* | Unutilized as at 31 December 2013<br>*HK$ million* |
|---|---|---|---|
| Enhancing and reinforcing the brand recognition and brand image | 558.5 | 494.6 | 63.9 |
| Expanding business by cooperating with upstream suppliers | 319.1 | 289.5 | 29.6 |
| Expanding and developing the sales distribution network and retail channels | 239.3 | 239.3 | – |
| Investing in research and development and expanding production infrastructure and warehouses | 239.3 | 166.7 | 72.6 |
| Upgrading the information technology system | 79.8 | 45.5 | 34.3 |
| Working capital and other general corporate purposes | 159.6 | 135.6 | 24.0 |
| | 1,595.6 | 1,371.2 | 224.4 |

The Group has deposited the remaining unused proceeds with licensed banks in Hong Kong and the PRC.

The Directors intend to apply the remaining net proceeds in the manner as set out in the prospectus of the Company dated 3 December 2010.

## DIVIDENDS

The Board is glad to recommend the payment of a final dividend of HK$0.44 per ordinary share and a final special dividend of HK$0.33 per ordinary share for the year ended 31 December 2013. Taking into account the interim dividend of HK$0.25 per ordinary share and the interim special dividend of HK$0.19 per ordinary share for the six months ended 30 June 2013 paid in September 2013, the annual dividends for the year ended 31 December 2013 will amount to HK$1.21 per ordinary share, accounting for approximately 70.3% of profit for the year ended 31 December 2013.

Subjected to the approval of shareholders at the forthcoming annual general meeting to be held on Thursday, 8 May 2014 (the "2014 AGM"), the final dividend and special dividend will be paid on or about Tuesday, 27 May 2014 to the shareholders whose names appear on the register of members of the Company on Friday, 16 May 2014.

## CLOSURE OF REGISTER OF MEMBERS

### (a) Entitlement to attend and vote at the 2014 AGM

The register of members of the Company will be closed from Tuesday, 6 May 2014 to Thursday, 8 May 2014, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2014 AGM, 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 Monday, 5 May 2014.

**(b) Entitlement to the proposed final dividend and special dividend**

The register of members of the Company will be closed from Wednesday, 14 May 2014 to Friday, 16 May 2014, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend and special 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 Tuesday, 13 May 2014.

## CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, the Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Throughout the year ended 31 December 2013, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision A.2.1, details of which are explained below.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

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.

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 they comply with the CG Code and align 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 throughout the year ended 31 December 2013.

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 inside 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 year ended 31 December 2013.

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.

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

During the year ended 31 December 2013, based on the Company's instructions, the trustee of the Share Award Scheme adopted by the Company on 28 November 2011 has purchased a total of 2,228,000 ordinary shares of the Company on the Stock Exchange at a total consideration of about HK$79,844,000.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2013.

## AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") comprises three members, namely, Dr. Ngai Wai Fung (Chairman of the Audit Committee), Mr. Luo Yun and Mr. Tan Wee Seng (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2013 and the annual results for the year ended 31 December 2013, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2013 and the annual report for the year ended 31 December 2013, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

## 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.hkexnews.hk). The annual report for the year ended 31 December 2013 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 25 March 2014

*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.*