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 2014

FINANCIAL HIGHLIGHTS		
	2014	2013
	RMB'000	*RMB'000*
Revenue	**4,731,563**	4,561,299
Gross profit	**2,926,931**	2,975,120
Profit for the year	**806,786**	820,715
Net cash flows from operating activities	**972,172**	660,473
Basic earnings per share	**RMB1.34**	RMB1.37
Annual dividend per ordinary share	**HK$0.67**	HK$1.21

For the year ended 31 December 2014, the Group recorded the following:

- Revenue amounted to RMB4,731.6 million, representing an increase of RMB170.3 million or 3.7% from RMB4,561.3 million in 2013.

- Profit for the year amounted to RMB806.8 million, representing a decrease of RMB13.9 million or 1.7% from RMB820.7 million in 2013.

- Net cash flows from operating activities amounted to RMB972.2 million, representing an increase of RMB311.7 million or 47.2% from RMB660.5 million in 2013.

- Basic earnings per share decreased from RMB1.37 in 2013 to RMB1.34, representing a decrease of 2.2%.

- The Board has recommended the payment of a final dividend of HK$0.41 per ordinary share for the year ended 31 December 2014. Taking into account the interim dividend of HK$0.26 per ordinary share paid in September 2014, the annual dividend for the year ended 31 December 2014 will amount to HK$0.67 per ordinary share, accounting for approximately 40.0% of profit for the year ended 31 December 2014.

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 2014 together with the comparative figures for the corresponding period in 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	**2014**	2013
		RMB'000	*RMB'000*
REVENUE	*5*	**4,731,563**	4,561,299
Cost of sales		**(1,804,632)**	(1,586,179)
Gross profit		**2,926,931**	2,975,120
Other income and gains	*5*	**128,065**	106,397
Selling and distribution costs		**(1,587,764)**	(1,513,046)
Administrative expenses		**(175,268)**	(177,313)
Other expenses		**(87,548)**	(55,573)
Finance costs	*6*	**(86,673)**	(10,589)
Share of profits of an associate		**592**	–
Fine on the violation of Anti-Monopoly Law		**–**	(162,900)
PROFIT BEFORE TAX	*7*	**1,118,335**	1,162,096
Income tax expense	*8*	**(311,549)**	(341,381)
PROFIT FOR THE YEAR		**806,786**	820,715
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(5,581)**	(823)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**801,205**	819,892
Profit attributable to owners of the parent		**806,786**	820,715
Total comprehensive income attributable to owners of the parent		**801,205**	819,892
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
Basic		**1.34**	1.37
Diluted		**1.31**	1.34

Details of the dividends paid and proposed for the year are disclosed in note 9 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**478,032**	326,187
Prepaid land lease payments		**63,243**	64,721
Goodwill	*17*	**76,000**	76,000
Intangible assets		**104,110**	109,889
Bonds receivable		**130,302**	98,092
Loans receivable		**53,531**	85,497
Deposits		**15,741**	14,755
Investment in an associate		**40,592**	–
Loan to an associate		**40,000**	–
Held-to-maturity investment		**18,810**	21,240
Time deposits		**1,146,183**	854,874
Deferred tax assets		**128,896**	123,892
Total non-current assets		**2,295,440**	1,775,147
CURRENT ASSETS			
Inventories	*11*	**797,027**	971,893
Trade and bills receivables	*12*	**12,043**	15,182
Prepayments, deposits and other receivables		**137,467**	110,935
Due from directors		**–**	2,000
Loans receivable		**39,457**	27,090
Derivative financial instrument		**2,570**	5,936
Restricted bank deposit		**–**	70,000
Cash and cash equivalents		**3,347,157**	1,662,836
Total current assets		**4,335,721**	2,865,872
CURRENT LIABILITIES			
Trade and bills payables	*13*	**294,542**	361,634
Other payables and accruals	*14*	**737,494**	719,838
Interest-bearing bank loans		**–**	750,613
Tax payable		**235,588**	212,725
Total current liabilities		**1,267,624**	2,044,810
NET CURRENT ASSETS		**3,068,097**	821,062
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,363,537**	2,596,209
NON-CURRENT LIABILITIES			
Convertible bonds	*15*	**2,410,526**	–
Deferred tax liabilities		**35,924**	80,616
Total non-current liabilities		**2,446,450**	80,616
Net Assets		**2,917,087**	2,515,593
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*16*	**5,197**	5,161
Equity component of convertible bonds		**66,978**	–
Reserves		**2,647,968**	2,143,222
Proposed dividends	*9*	**196,944**	367,210
Total equity		**2,917,087**	2,515,593

NOTES TO FINANCIAL STATEMENTS
31 December 2014

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.

Pursuant to applicable laws and regulations of the People's Republic of China ("PRC"), foreign investors are not allowed to hold more than 50% of the equity interest in an entity conducting value-added telecommunications services business. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas. In contemplation of developing a uniform e-commerce platform to be utilised for the sale of the Group's products, on 8 November 2013, Guangzhou Mama100 E-commerce Company Limited ("Mama100 E-commerce") was established in the PRC with limited liability by certain of the directors of the Company.

The Group, Mama100 E-commerce and its then equity holders entered into a series of contractual arrangements (the "Contractual Arrangements") on 27 June 2014, which enables the Group to:

(i) exercise an effective financial and operational control over Mama100 E-commerce;

(ii) exercise equity holders' voting rights of Mama100 E-commerce;

(iii) receive substantially all of the economic interest returns generated by Mama100 E-commerce in consideration for the management and consulting services and licenses provided by the Group, and absorb the risk of losses from Mama100 E-commerce;

(iv) obtain an irrevocable and exclusive right to purchase entire equity interest in Mama100 E-commerce from the respective equity holders for a consideration in the amount of RMB10,000, or when appraisal is required under PRC law, 1% of the appraisal price or at the lowest price permitted by then applicable PRC laws and regulations; and

(v) obtain a pledge over the entire equity interest of Mama100 E-commerce from their respective equity holders as collateral security for all of Mama100 E-commerce payments due to the Group and to secure performance of Mama100 E-commerce's obligations under the Contractual Arrangements.

The Group does not have any equity interest in Mama100 E-commerce. However, as a result of the Contractual Arrangements, the Group is exposed, or has rights, to variable returns from its involvement with Mama100 E-commerce and has the ability to affect those returns through its power over Mama100 E-commerce and is considered to control Mama100 E-commerce. Consequently, Mama100 E-commerce is consolidated into the Group's financial statements upon the execution of the Contractual Agreements.

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"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance (Cap. 32).

The financial statements 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 2014. 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 revised standards and a new interpretation for the first time for the current year's financial statements:

Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised)	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets And Financial Liabilities*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*
Amendments to IFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendments to IFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendments to IFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendments to IFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective IFRSs*

[1] Effective from 1 July 2014

The adoption of the revised standards and a new interpretation 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. The Group has four reportable operating segments as follows:

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

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

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 2014 and 2013, 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 2014

	Infant formulas *RMB'000*	Probiotic supplements *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	**3,981,575**	**425,094**	**151,420**	**173,474**	**–**	**4,731,563**
Segment results	**2,466,913**	**303,707**	**74,345**	**81,966**	**–**	**2,926,931**
Reconciliations:						
Interest income						**113,119**
Other income and unallocated gains						**14,946**
Corporate and other unallocated expenses						**(1,849,988)**
Finance costs						**(86,673)**
Profit before tax						**1,118,335**
Other segment information:						
Depreciation and amortisation	**2,679**	**1,540**	**623**	**85**	**45,740**	**50,667**
Write-down/(back) of inventories to net realisable value	**781**	**210**	**(93)**	**86**	**–**	**984**
Capital expenditure*	**44,306**	**530**	**–**	**36**	**152,217**	**197,089**

Operating segment information for the year ended 31 December 2013

	Infant formulas *RMB'000*	Probiotic supplements *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	3,752,116	458,164	198,778	152,241	–	4,561,299
Segment results	2,421,955	360,182	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	823	2,039	893	160	22,649	26,564
Write-down/(back) of inventories to net realisable value	3,430	35	431	(189)	–	3,707
Capital expenditure*	294,945#	3,978	321	42	130,914	430,200#

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payment and intangible assets.

Capital expenditure of infant formulas segment has been restated as the purchase price allocation for the business combination has been completed in the year ended 31 December 2014. Further details of the acquisition are included in note 17 to the financial statements.

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:

	2014 ***RMB'000***	2013 *RMB'000*
Revenue		
Sale of goods	**4,731,563**	4,561,299
Other income and gains		
Bank interest income	**105,034**	82,932
Interest income from loans and bonds receivable	**8,085**	4,654
Foreign exchange gain	**–**	14,021
Service income	**1,239**	1,193
Government subsidies	**10,581**	1,218
Others	**3,126**	2,379
	128,065	106,397

6. FINANCE COSTS

	2014	2013
	RMB'000	*RMB'000*
Interest on bank loans	**8,690**	10,589
Interest on convertible bonds	**77,983**	–
	86,673	10,589

7. PROFIT BEFORE TAX

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

	2014	2013
	RMB'000	*RMB'000*
Cost of inventories sold	**1,803,648**	1,582,472
Depreciation	**41,879**	25,665
Amortisation of intangible assets	**7,310**	480
Amortisation of land lease payments	**1,478**	419
Auditors' remuneration	**2,900**	2,730
Research and development costs*	**49,724**	43,725
Minimum lease payments under operating leases in respect of buildings	**55,255**	38,371
Loss on disposal of items of property, plant and equipment	**97**	36
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**558,308**	671,031
Pension scheme contributions (defined contribution schemes)	**109,087**	78,797
Staff welfare and other expenses	**31,926**	31,783
Equity-settled share option expense	**4,488**	10,075
Equity-settled share award expense	**12,044**	48,977
	715,853	840,663
Foreign exchange differences, net	**8,187**	(14,021)
Write-down of inventories to net realisable value#	**984**	3,707

* Included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

\# Included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

8. INCOME TAX

	2014	2013
	RMB'000	*RMB'000*
Group:		
Current – Charge for the year		
Mainland China	**355,130**	395,819
Hong Kong	**5,759**	8,401
France	**356**	183
Deferred	**(49,696)**	(63,022)
Total tax charge for the year	**311,549**	341,381

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 (2013: 16.5%).

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 rate of 25% on the taxable profits for the year, based on the existing legislation, interpretations and practices in respect thereof.

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:

	2014	2013
	RMB'000	*RMB'000*
Group:		
Profit before tax	**1,118,335**	1,162,096
Tax at the applicable PRC enterprise income tax rate	**279,584**	290,524
Overseas tax differential	**2,357**	(3,902)
Expenses not deductible for tax	**18,280**	57,940
Income not subject to tax	**(5,194)**	(1,049)
Tax losses not recognised	**2,370**	5,313
Effect of withholding tax at 5% (2013: 5%) on the distributable profits of the Group's subsidiaries in Mainland China	**14,152**	30,569
Refund of withholding tax payment at a lower rate of 5%	**–**	(38,014)
Tax charge at the Group's effective rate	**311,549**	341,381

9. DIVIDENDS

	2014 *RMB'000*	2013 *RMB'000*
Dividends on ordinary shares declared and paid during the year:		
Interim – HK$0.26 (2013: HK$0.25) per ordinary share	**124,315**	119,437
Interim special – nil (2013: HK$0.19) per ordinary share	**–**	90,773
Proposed final – HK$0.41 (2013: HK$0.44) per ordinary share	**196,944**	209,834
Proposed special – nil (2013: HK$0.33) per ordinary share	**–**	157,376
	321,259	577,420

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

10. 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 602,326,189 (2013: 599,639,595) in issue during the year.

The calculation of the diluted earnings per share amount for the year 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 of diluted earnings per share 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 under the share option schemes and share award schemes. As the conversion or exercise of convertible bonds would have an antidilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of convertible bonds.

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

	2014 *RMB'000*	2013 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**806,786**	820,715
	Number of Shares	
Shares		
Weighted average number of ordinary shares in issue	**604,420,682**	602,294,000
Weighted average number of shares held for the Share Award Schemes	**(2,094,493)**	(2,654,405)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**602,326,189**	599,639,595
Effect of dilution – weighted average number of ordinary shares:		
Share options and awarded shares	**11,632,885**	13,480,561
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**613,959,074**	613,120,156

11. INVENTORIES

	2014	2013
	RMB'000	*RMB'000*
Raw materials	**535,693**	445,516
Raw materials in transit	**156,031**	375,522
Work in progress	**2,491**	2,881
Finished goods	**102,812**	147,974
	797,027	971,893

12. TRADE AND BILLS RECEIVABLES

	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**1,529**	475
Bills receivable	**10,514**	14,707
Less: Impairment provision	**–**	–
	12,043	15,182

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:

	2014	2013
	RMB'000	*RMB'000*
Within 1 month	**1,513**	7,605
1 to 3 months	**10,529**	7,576
Over 3 months	**1**	1
	12,043	15,182

The above aged analysis included the bills receivable balance of RMB10,514,000 (2013: RMB14,707,000).

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.

13. TRADE AND BILLS PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Trade payables	**289,529**	354,760
Bills payable	**5,013**	6,874
	294,542	361,634

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:

	2014	2013
	RMB'000	*RMB'000*
Within 1 month	**273,967**	356,646
1 to 3 months	**19,825**	4,731
Over 3 months	**750**	257
	294,542	361,634

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

Included in the Group's trade payables are amounts due to the Group's associate of RMB20,498,000 (2013: nil), which are repayable on similar credit terms to those offered by the major suppliers of the Group.

14. OTHER PAYABLES AND ACCRUALS

	2014	2013
	RMB'000	*RMB'000*
Advances from customers	**11,725**	10,824
Salaries and welfare payables	**87,900**	126,773
Accruals	**402,252**	323,624
Other tax payables	**114,187**	127,130
Deferred income	**31,397**	51,768
Other payables	**90,033**	79,719
	737,494	719,838

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

15. CONVERTIBLE BONDS

On 20 February 2014, the Company issued zero coupon convertible bonds (the "Convertible Bonds") due 20 February 2019 with an aggregate principal amount of HK$3,100,000,000. The convertible bonds became listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 21 February 2014. There was no movement in the number of these convertible bonds during the year.

The bonds may be converted, at the option of the bondholders, at any time on or after 4 April 2014 to the close of business on the date falling seven days prior to 20 February 2019, or if such convertible bond has been called for redemption before 20 February 2019, then up to and including the close of business on a date no later than seven days prior to the date fixed for redemption. The convertible bonds will be convertible into shares at an initial conversion price of HK$90.84 per share. The conversion price will be subject to adjustment for, among other things, consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, capital distributions, rights issues of shares or options over shares, rights issues of other securities and other dilutive events.

The bonds are redeemable at the option of the Company in whole, but not in part, at a redemption price equal to the early redemption amount as at such date, (i) at any time after 20 February 2017, provided that the closing price of a share, for 20 out of the 30 consecutive trading days immediately prior to the date upon which the notice is given was at least 130% of the early redemption amount divided by the conversion ratio then in effect immediately prior to the date upon which notice of such redemption is given; or (ii) if, prior to the date the relevant notice is given, conversion rights have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 90% or more in principal amount of the convertible bonds originally issued.

The Company will, at the option of the bondholders, redeem all or some of the bondholders' convertible bonds on 20 February 2017, at their early redemption amount as at such date.

The bonds do not bear any coupon interest. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each bond at 115.34% of its principal amount on 20 February 2019.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the year have been split into the liability and equity component as follows:

	2014	2013
	RMB'000	*RMB'000*
Nominal value of convertible bonds issued during the year	**2,460,625**	–
Equity component	**(66,978)**	–
Direct transaction costs	**(46,255)**	–
Liability component at the issuance date	**2,347,392**	–
Interest expense	**77,983**	–
Exchange alignment	**(14,849)**	–
Liability component	**2,410,526**	–

16. SHARE CAPITAL

Shares

	2014	2013
Authorised:		
10,000,000,000 (2013: 10,000,000,000) ordinary shares of HK$0.01 each	**HK$100,000,000**	HK$100,000,000
Issued and fully paid:		
606,825,765 (2013: 602,294,000) ordinary shares of HK$0.01 each	**HK$6,068,258**	HK$6,022,940
Equivalent to	**RMB5,197,000**	RMB5,161,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** *HK$'000*	**Equivalent to** *RMB'000*
At 31 December 2013 and 1 January 2014	602,294,000	6,023	5,161
Share options exercised (Note (a))	2,428,449	24	19
Issues for 2013 Share Award Scheme (Note (b))	2,103,316	21	17
	4,531,765	45	36
At 31 December 2014	606,825,765	6,068	5,197

Notes:

(a) During the year, the subscription rights attaching to 2,428,449 share options were exercised at the subscription price of the share option schemes, resulting in the issue of 2,428,449 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$24,000 (equivalent to RMB19,000).

(b) During the year, the Company issued 2,103,316 shares of HK$0.01 each pursuant to 2013 Share Award Scheme, resulting in an increase in share capital of HK$21,000 (equivalent to RMB17,000).

17. BUSINESS COMBINATION

On 30 December 2013, the Group acquired 100% interests in Changsha Yingke Nutrition Products Company Limited from a third party, which was renamed as Adimil (Changsha) Nutrition Products Limited ("Changsha Adimil"). Changsha Adimil 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 RMB350,000,000 in the form of cash.

By the end of last reporting period, the purchase price allocation of Changsha Adimil was incomplete, pending on the finalisation of valuation of certain property, plant and equipment, land lease payment and intangible assets, and the determination of the tax basis of the assets and liabilities acquired.

By the date of approval of these financial statements, the valuation of the property, plant and equipment, land lease payment and intangible assets have been completed, and the purchase price allocation has been completed as follows:

	Preliminary fair value recognised on acquisition *RMB'000*	**Final fair value recognised on acquisition** *RMB'000* (Restated)
Property, plant and equipment	140,948	145,113
Prepaid land lease payments	66,052	46,052
Intangible assets	–	103,780
Deferred tax liability	–	(20,945)
Total identifiable net assets at fair value	207,000	274,000
Goodwill on acquisition	143,000	76,000
Satisfied by cash	350,000	350,000

The quantitative impact on the financial statements is summarised below:

Impact on the consolidated statement of financial position:

	As at 31 December 2013 *RMB'000*
Increase in property, plant and equipment	4,165
Decrease in prepaid land lease payments	(19,540)
Decrease in goodwill	(67,000)
Increase in intangible assets	103,780
Increase in total non-current assets	21,405
Decrease in current portion of prepaid land lease payments included in prepayments, deposits and other receivables	(460)
Increase in net current assets	20,945
Increase in deferred tax liabilities	20,945

The restatement did not have any impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013, nor any impact on the earnings per share attributable to ordinary equity holders of the parent for the year ended 31 December 2013.

18. COMPARATIVE AMOUNTS

As further explained in Note 17, the purchase price allocation for the business combination has been completed in the year ended 31 December 2014, certain comparative amounts have been restated to conform with the current year's presentation and accounting treatment. The statement of financial position as at 1 January 2013 was not presented as the retrospective restatement has no effect on the information in the statement of financial position at the beginning of the preceding year.

BUSINESS REVIEW

In the year of 2014, China maintained steady albeit slowing economic growth, and pressed ahead with its economic restructuring, which cast uncertainty over the country's consumer industries, including the baby product sector. To cope with such challenges in a rapidly evolving business environment, the Group, as a premium provider of high-end pediatric nutritional and baby care products, increased investment to support long-term business growth through a business unit restructuring in the first half of 2014. Therefore, the Group was able to go through this competitive environment and manage to deliver 3.7% sales growth and maintain solid financial performance with net profit margin of 17.1% for the year ended 31 December 2014, while revenue and net profit of the Group reached RMB4,731.6 million and RMB806.8 million, respectively.

To ensure dedicated efforts in growing the Group's four brands and to share support from Mama100 platform and other background departments, the Group conducted an internal organization restructuring to set up independent business units. The restructuring was completed on 30 June 2014, and began to bring benefits to the operation of the Group in the second half of the year. Productivity and efficiency have been improved, and cost savings were achieved through cross-brand cooperation and synergy generated by leveraging the extensive customer database. The Group is confident that the new structure will provide a solid foundation to sustain business growth and maintain sound financial control, despite the intensive competition in China's baby product industry.

In the past two years, the e-commerce proliferated rapidly and played an increasingly important role in consumers' daily life. These years saw a fast shift from offline purchasing to online purchasing, leading to significant changes to offline sales channels and reshaping the competitive landscape. Acknowledging the emerging trend of online purchasing, the Group established an Online-to-Offline ("O2O") business model by integrating online ordering platforms and offline logistic resources of its VIP baby specialty stores. During the year 2014, O2O business contributed to 10.1% of the Group's total accumulated membership points. As at the end of 2014, the combined number of Mama100 mobile APP registered users and Mama100 WeChat followers reached approximately 1.9 million, and the average number of daily active users of the Mama100 mobile APP during the fourth quarter of 2014 reached around 85,000. As at the end of 2014, there were over 20,000 membership stores participating in the Group's O2O platform and the Group has selected 4,000 stores out of them to build O2O flagship stores in order to standardize service procedures and increase service efficiency.

In addition to the existing O2O business model, the Group also adopted the Business-to-Customer ("B2C") business model in August 2014. By the end of the year, the Group had already cooperated with the majority of the leading e-commerce platforms in China, including JD.COM, TMALL.COM, Yihaodian, Amazon.cn, Suning.com and Dangdang.com, etc. At the same time, the Group selected certain series of infant formulas products as key units on the B2C platforms in order to increase visibility, attract new members and boost sales. The Group has recorded a fast growth in its B2C business and received consumers' positive feedback in its B2C layout period. The Group believes that its O2O, B2C and offline businesses will complement each other, and its multi-platform strategy will help capture new opportunities in the fast changing industry environment.

During the year 2014, the Group consistently invested in its core competencies and thus recorded a growth of 11.4% in the sales volume and 6.1% in the sales revenue in its infant formula business despite the intensified competition in China's infant formula market. As a newly launched infant formula brand, Adimil maintained strong momentum in the year, and accounted for 17.9% of the Group's sales of infant formulas. In the fourth quarter of 2014, the Group successfully launched a new Adimil series which were manufactured by the Group's Changsha Adimil plant using raw milk sources imported from Europe and target high-end markets in the fourth- and fifth-tier cities in China. According to Nielsen, an independent third party market research firm, the Group gained market share in both the offline and online infant formula markets in China in the year 2014. And in offline market, the Group maintained its position as the third largest player.

BMcare, the baby care brand of the Group, contributed to 3.7% of the Group's total sales in 2014. In December 2014, the Group launched nationwide a new series of diapers which were manufactured by the Group's joint venture factory Hangzhou Coamie Personal Care Products Co., Ltd. (杭州可艾個人護理用品有限公司)[(1)]. The preliminary feedback from retail stores and Mama100 members on this diaper was very positive, which makes the Group believe that this new product will become a growth and diversification driver.

The development of new media has been changing the way consumers obtain information and the way companies advertise their brands and products. In 2014, the Group stepped up advertising and increased the brand building expense by 14.4% from last year. While continuing advertisement in traditional media, the Group has also invested increasingly in marketing with new media such as internet TV platforms, search engines, social media network platforms and online vertical parenting forums. Spending on emerging media in 2014 was more than triple of that in 2013. The Group is adapting its marketing strategy to meet the changes of media environment and will continue to invest in brand building to increase brand recognition and enhance brand equity.

The Mama100 membership continues to play a critical role in the Group's business. The average number of Mama100 active members of 2014 increased by 12.4% to 1,958,149, while the number of member retail outlets as of the end of 2014 increased by 64.7% to 34,098, as compared with 2013. The sales generated by Mama100 active members contributed to about 76.8% of the Group's total revenue. In 2014, the Group organized over 25,000 face-to-face parenting courses as membership service to increase member loyalty and recruit new members.

According to Nielsen, the weighted average offline distribution rate of the Group is about 60%. Viewing this as a growth opportunity, the Group accelerated its store expansion, especially in the sales and distribution channels in lower-tier cities. By the end of the year 2014, the Group recorded rapid increases in the number of VIP baby specialty stores to 24,615, Mama100 Member's Zones in pharmacies to 2,824, and retail sales organizations to 6,659 or by 76.4%, 152.8% and 27.2% as compared with 2013, respectively. At the same time, the Group has continued to track the inventory and sales of its products at the distributors' level through an advanced real-time distribution management system. This has enabled the Group to maintain healthy operating cash flow and avoid channel conflict and stuffing. In 2014, the average inventory turnover days of the Group and the Group's distributors were about 176 days and 31 days respectively.

(1) Hangzhou Coamie Personal Care Products Co., Ltd. (杭州可艾個人護理用品有限公司) was established in March 2014 in Hangzhou, in accordance with the joint venture agreement entered into by the Group and Hangzhou Coco Healthcare Co., Ltd (杭州可靠護理用品股份有限公司) on 10 January 2014.

In 2014, the Group continued to increase investment in research and development ("R&D"). At the end of the year, the Group's Guangzhou R&D and Quality Analysis Centre was completed after two years of construction and started operation. With this new center, the Group will be able to strengthen its R&D and quality management capabilities for the long run. In September 2014, the Group formally launched Biostime Institute of Nutrition and Care ("BINC") at the occasion of the 19th session of the National Pediatric Academic Meeting. BINC is a research organization dedicated to providing mothers and children with science-based health solution in nutrition, care and psychology. It aims at serving as an important international platform for expert communication, academic exchange and resource sharing among medical and scientific professionals in China and abroad. The Group believes that the establishment of BINC will enable the Group to enhance its R&D capabilities and make great contribution to the development of innovative products. Moreover, in September 2014, the Group signed a technology transfer agreement with Mérieux NutriSciences, the world's leading provider of analytical testing and research services to pediatric nutrition and infant formula companies, to develop a high performance metagenomics platform for conducting microbiota research for the Chinese market. This cooperation will allow the Group to acquire cutting-edge knowledge in pediatric nutrition and health and to apply the research findings to potential product upgrade and innovation.

The Group is committed to high standard quality management and has worked closely with its suppliers to seek continuous improvement and deeper cooperation in this field. In May 2014, the Group's Changsha Adimil plant successfully renewed its National Industrial Products Production Permit for the production of infant formula products, demonstrating its full conformity with the more stringent industry manufacturing standards. The Group will continue to secure stable supply of high quality base milk powder from France by Isigny Sainte Mère ("ISM") and cooperate with ISM's technical experts to ensure advanced production and quality assurance process in the Adimil plant. As to the Group's imported infant formula products, the Group's three infant formula suppliers in Europe were successfully accredited by the Certification and Accreditation Administration of China ("CNCA") and registered with the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China ("AQSIQ") under the new regulations governing foreign infant formula producers.

The Group consistently invested in its organization by offering competitive compensation, various training and educational opportunities. As at 31 December 2014, the Group had over 3,200 employees in Mainland China, Hong Kong, France and Ireland. In October 2014, the Group granted 2,103,316 shares to selected employees by way of allotment of new shares under the 2013 Share Award Scheme adopted in November 2013. For the year of 2014, the Group was named as the "2014 Best Employer" by Guangzhou Daily and "China Best Employer" by zhaopin.com.

PROSPECTS

It is anticipated that in 2015, China's economy will face several uncertainties and the competition in the baby product industry will continue to be fierce. Nevertheless, the adjustment to the one-child policy will encourage the growth in the number of births in the coming few years, thus creating a greater business opportunity for the baby product industry. The Group has taken a series of action steps in order to capitalize future opportunities.

Brand Building

The Group will adhere to its multi-brand strategy in face of the development of mobile internet and the diversification of Chinese consumers' needs. The Group will consolidate the brand equity of Biostime as a high-end brand providing all-round nutrition to support the development of physical, intelligent and emotional qualities of babies. Meanwhile, it will enhance the recognition of Adimil as focusing on nutrition enhancement and functionality to fulfill different customers' needs. The Group will also continue to invest in BMcare which is positioned as a premium baby care brand.

Enhancing brand equity through multi-channel marketing platform is one of the important growth drivers of the Group's business. Nowadays, young parents seek for a more convenient and customized way to obtain qualitative parenting information on a timely manner. And information or recommendations from people and the community around play an instrumental role in parents' decision on selecting baby products. Therefore, the Group will increasingly advertise on emerging media, such as new vertical online parenting forums and mobile apps, and will also design special parenting events catering for young parents' needs and focus on word-of-mouth marketing, while maintaining a certain exposure in traditional media such as CCTV, provincial TV stations and parenting magazines.

Sales Channel Expansion

In order to seize the business opportunities in lower tier cities and further extend the O2O network, the Group will accelerate its channel expansion and increase product penetration. By the end of 2015, the Group aims to increase the number of its VIP baby specialty stores to 30,000, VIP pharmacies to 6,000, while maintaining the number of supermarkets at the same level as at the end of 2014. As pharmacy is emerging rapidly among the offline channels in the sales of baby products, the Group expects to generate 10% of its total sales from pharmacies within two to three years.

Online Strategy

After around one and a half years of operation, the Mama100 O2O platform has succeeded in providing convenience to Mama100 members, enhancing customer loyalty and eventually contributing to the sales of the Group's products. Meanwhile, the Group was well aware of the customers' demand for more choices of products as well as the platform's strength in fulfilling this demand. Thus, the Group decided to open the platform for sales and marketing of third parties' branded products, with the aim of developing it into a more comprehensive e-commerce platform. To further support this initiative, the Group will seek investors (including external professional institutional investors and certain key employees of the Group) into its subsidiary, Mama100 International Holdings Limited. In the long term, the Group is looking forward to building the leading vertical O2O e-commerce platform in China which focuses on products and services for pregnant mothers and babies. At the same time, the Group has already assigned an independent and professional team to handle its B2C e-commerce development. In the coming year, the Group believes that it will record a significant development of its B2C business. Lastly, the Group is gradually implementing its Customer-to-Customer ("C2C") online member store authorization system, which enables the Group's offline member stores and other well-established retail online stores to sell the Group's products on C2C platforms. The Group will continue its diversified online platforms strategy and targets to derive 30% of its total sales from online sales within two years.

Category Expansion

As a premium provider of high-end pediatric nutritional and baby care products, the Group is committed to fulfilling its members' ever-growing needs for high quality baby products and parenting services by leveraging the Group's membership, marketing and distribution platform. In the coming year, the Group will continue to invest in its in-house R&D capabilities to develop new initiatives based on existing categories. On the other hand, the Group is looking for companies with high quality baby products, well-known brands and solid R&D capabilities as acquisition targets which will help further expand the Group's product category.

CHALLENGES AND OPPORTUNITIES

The intensified competition and changes in distribution channels in China's baby product industry has made the business environment increasingly challenging. However, the Group has adopted its new marketing strategies and organizational structure to capture the opportunities alongside. With its market know-how and innovation in business model, the Group is confident of outperforming the market.

As the majority of the Group's products and raw materials are imported from Europe, the Group is exposed to the fluctuation of Euro to RMB exchange rate. The Group will strengthen its supply chain management and increase operation efficiency in order to cope with such fluctuation and maintain profitability.

SOCIAL RESPONSIBILITY

The Group established the "Biostime China Foundation for Mother and Child" (the "Foundation") in cooperation with the Chinese Red Cross Foundation in 2007 and has donated RMB0.1 to the Foundation for every product unit sold. Since its inception, the Foundation has raised a total of approximately RMB15.0 million and assisted over 510 children and mothers suffering from serious illnesses by the end of 2014. In 2013, the Foundation donated RMB1.0 million to support the relief and reconstructing of Ya'an in Sichuan Province after an earthquake, and the monetary donation has now been used to construct the Luo Ba Primary School. The Foundation is also cooperating with qualified maternal and child care hospitals and general hospitals in the country to carry out the project of "Biostime Hospitals for Maternal and Infant Health Care (合生元母嬰救助愛心醫院)" and 30 hospitals of this kind are expected to be built in three years with donation of RMB15.0 million from the Foundation. In recognition of the Group's contribution to society, the Group was awarded "The Best Social Responsibility Brand 2014" at the 4th China Charity Festival.

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2014, revenue of the Group increased by 3.7% to RMB4,731.6 million as compared with 2013. The increase in revenue was mainly attributable to the growth of Adimil, the Group's new brand of infant formulas launched in late 2013. The following table sets forth the Group's revenue by product segment for the years indicated:

	Year ended 31 December			
	2014	**% of**	2013	% of
	RMB'000	**Revenue**	*RMB'000*	Revenue
Infant formulas	**3,981,575**	**84.1%**	3,752,116	82.3%
Probiotic supplements	**425,094**	**9.0%**	458,164	10.0%
Dried baby food and nutrition supplements	**151,420**	**3.2%**	198,778	4.4%
Baby care products	**173,474**	**3.7%**	152,241	3.3%
Total	**4,731,563**	**100.0%**	4,561,299	100.0%

Infant formulas

During the year 2014, the Group has consistently invested in its core competencies and thus recorded a growth in revenue of infant formulas by 6.1% to RMB3,981.6 million as compared with last year. The revenue growth was mainly driven by the increased sales volume of infant formulas under the brand Adimil, which showed strong momentum during the year, accounting for 17.9% of the Group's total revenue of infant formulas. In 2014, sales volume and revenue of high-tier infant formulas increased by 14.2% and 10.5%, respectively, resulting in a further increase of sales proportion within the product segment by 2.5 percentage points to 63.0% from 60.5% in 2013. Revenue from supreme-tier infant formulas remained stable in 2014, accounting for 37.0% of the total revenue of infant formulas.

Probiotic supplements

Accounted for 9.0% of the Group's total revenue in 2014, revenue of probiotic supplements decreased by 7.2% from RMB458.2 million in 2013 to RMB425.1 million in 2014. Revenue of probiotic supplements resumed in the second half of 2014, with the completion of business unit restructuring, recording an increase of 3.9% as compared with last year. While owing to an insufficiency of dedicated efforts of the Group's sales force, revenue of probiotic supplements had a double-digit decrease rate in the first half of 2014 as compared with the corresponding period of last year.

Dried baby food & nutrition supplements

Revenue of dried baby food and nutrition supplements only accounted 3.2% of the Group's total revenue in 2014, and declined by 23.8% to RMB151.4 million during 2014 compared with 2013. The decrease was mainly due to the suspension of the production of DHA chews/soft capsules as the Group simplified the product portfolio.

Baby care products

Revenue of baby care products increased by 13.9% to RMB173.5 million in 2014 from RMB152.2 million in 2013. The growth in revenue of this segment was mainly attributable to the newly launched baby diapers in December 2014, which received very positive feedback from retail stores and Mama100 members.

Gross profit and gross profit margin

In 2014, the Group recorded gross profit in the amount of RMB2,926.9 million, which slightly decreased by 1.6% compared with last year. Gross profit margin decreased from 65.2% in 2013 to 61.9% in 2014. The decrease in gross profit margin mainly resulted from: (i) reduced ex-factory price by the Group to its distributors started from the second half of 2013; (ii) increased costs on customer rewarding programs, including awarding additional accumulation points to the infant formula customers started from the second half of 2013 and other more marketing campaigns; and (iii) impact of the product mix, in which products with higher gross profit margin took up a lower revenue proportion in the revenue portfolio compared with last year.

Other income and gains

Other income and gains in 2014 amounted to RMB128.1 million, representing an increase of 20.4% comparing with last year. Other income and gains primarily consisted of interest income of RMB113.1 million, government subsidies of RMB10.6 million and others.

Selling and distribution costs

The Group continued to invest in its brand building and organize innovated customer communication events to win brand recognition in 2014. Thus, selling and distribution costs as a percentage of revenue slightly increased by 0.4 percentage points from 33.2% in 2013 to 33.6% in 2014, which was still within the management's expectation. Selling and distribution costs increased by 4.9% from RMB1,513.0 million in 2013 to RMB1,587.8 million in 2014. The increase was primarily due to (i) the increased investments in the advertising and brand building costs in new media; and (ii) the increased promotional expenses in relation to the consumer communication and store expansion.

Administrative expenses

Administrative expenses decreased by 1.1% from RMB177.3 million in 2013 to RMB175.3 million in 2014. Thanks to the enhancement on the efficiency of the Group, administrative expense as to revenue slightly decreased to 3.7% in 2014 from 3.9% in 2013.

Other expenses

For the year ended 31 December 2014, other expenses amounted to RMB87.5 million, primarily consisting of R&D expenses of RMB49.7 million, net exchange loss for the year of RMB8.2 million and others.

Finance costs

In 2014, the Group incurred finance costs of RMB86.7 million, including bank loan interests of RMB8.7 million and non-cash interest expense of Convertible Bonds of RMB78.0 million.

Income tax expenses

Income tax expenses decreased by 8.7% from RMB341.3 million in 2013 to RMB311.6 million in 2014. The effective tax rate declined from 29.4% in 2013 to 27.9% in 2014. The decrease in the effective tax rate was mainly due to the non-continuing one-off expense of a fine amounting to RMB162.9 million incurred in 2013, which is subject to income tax under the PRC tax rules.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2014, the Group had net cash generated from operating activities of RMB972.2 million, consisting of cash generated from operations of RMB1,310.6 million, partially offset by income tax paid of RMB338.4 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB1,159.6 million before working capital adjustments and net positive changes in working capital of RMB151.0 million. Resulting from the Group's effort in maintaining its inventory turnover days at a healthy level, it freed up cash from operating activities.

Investing activities

For the year ended 31 December 2014, net cash flows used in investing activities amounted to RMB460.4 million. The Group's net cash outflows for investing activities mainly consisted of (i) outflow for construction in progress, purchase of property, plant and equipment and intangible assets of RMB148.4 million, (ii) payment for the investment in an associate of RMB40.0 million, (iii) subscription of bonds of an overseas supplier of RMB48.8 million; and (iv) a net increase in time deposit of RMB293.3 million. The above outflows were partially offset by the interest received and repayment of long-term loan receivable of RMB77.5 million and RMB31.1 million, respectively.

Financing activities

For the year ended 31 December 2014, net cash generated in financing activities amounted to RMB1,171.8 million. It primarily reflected net proceeds from issuing Convertible Bonds (as defined below) of RMB2,414.4 million, partially offset by distribution of the dividends to the shareholders of the Company of RMB492.7 million and repayment of bank loans of RMB750.6 million.

Cash and bank balances

As of 31 December 2014, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB3,347.2 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB1,146.2 million, the Group's cash and bank balances amounted to RMB4,493.3 million as of 31 December 2014.

Convertible bonds and interest-bearing bank loans

On 20 February 2014, the Company issued zero coupon convertible bonds due 2019 in the aggregate principal amount of HK$3,100.0 million. The bonds are convertible into shares of the Company at an initial conversion price of HK$90.84 per share prior to 20 February 2019 by the bond holders, or are subject to call for redemption by the bond issuer under certain conditions. The net proceeds from the issue of the Convertible Bonds, after deduction of commissions and expenses are all intended to be used by the Company to finance expansion of existing businesses and general corporate purposes. No Convertible Bonds were converted into shares of the Company during 2014 and the carrying amount of the Convertible Bonds as at 31 December 2014 remained at RMB2,410.5 million. During the year, the Group had repaid all the bank loans thus no interest-bearing bank loans were outstanding as of 31 December 2014. The gearing ratio was 36.4% calculated by dividing the Convertible Bonds by total assets.

Inventories

	As of 31 December	
	2014	2013
	RMB'000	*RMB'000*
Raw materials	**535,693**	445,516
Raw materials in transit	**156,031**	375,522
Work in progress	**2,491**	2,881
Finished goods	**102,812**	147,974
Total	**797,027**	971,893

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 100 days in 2013 to 112 days in 2014.

The average turnover days of trade and bills receivables maintained at 1 day for the years ended 31 December 2014 and 2013.

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 People's Republic of China (國家質量監督檢驗檢疫總局), which is the administrative agency in the People's Republic of China (the "PRC") in charge of, among other things, inspection of entry/exit of goods, import and export food safety, and certification.

The inventory turnover days increased to 176 days in 2014 from 170 days in 2013. The Group endeavored to maintain its inventory at a healthy level to avoid excess inventory and deep discounting. Through adjusting purchase orders to reflect sales as well as launching series of innovative marketing activities, the Group's inventory turnover days resumed to normal in the second half of 2014. According to the Group's sophisticated real-time distribution management system, the average inventory turnover days at the distributor's level slightly increased by 2 days from 29 days in 2013 to 31 days in 2014.

The average turnover days of trade payables decreased from 71 days in 2013 to 65 days in 2014, which was mainly due to the increased purchases from suppliers with shorter credit terms.

USE OF PROCEEDS

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

The use of the net proceeds from the global offering up to 31 December 2014 was as follows:

	Available to utilize	**Utilized as at 31 December 2014**	**Unutilized as at 31 December 2014**
	HK$ million	*HK$ million*	*HK$ million*
Enhancing and reinforcing the brand recognition and brand image	558.5	558.5	–
Expanding business by cooperating with upstream suppliers	319.1	319.1	–
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	239.3	–
Upgrading the information technology system	79.8	47.5	32.3
Working capital and other general corporate purposes	159.6	159.6	–
	1,595.6	1,563.3	32.3

The Group has deposited the remaining unused proceeds with lisensed 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$0.41 per ordinary share for the year ended 31 December 2014. Taking into account the interim dividend of HK$0.26 per ordinary share for the six months ended 30 June 2014 paid in September 2014, the annual dividend for the year ended 31 December 2014 will amount to HK$0.67 per ordinary share, accounting for approximately 40.0% of profit for the year ended 31 December 2014.

Subject to the approval of shareholders at the forthcoming annual general meeting to be held on Friday, 15 May 2015 (the "2015 AGM"), the final dividend will be paid on or about Friday, 5 June 2015 to the shareholders whose names appear on the register of members of the Company on Wednesday, 27 May 2015.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2015 AGM

The register of members of the Company will be closed from Wednesday, 13 May 2015 to Friday, 15 May 2015, 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 2015 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 Tuesday, 12 May 2015.

(b) Entitlement to the proposed final dividend

The register of members of the Company will be closed from Friday, 22 May 2015 to Wednesday, 27 May 2015, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final 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 Thursday, 21 May 2015.

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 of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Throughout the year ended 31 December 2014, the Company has complied with all the code provisions as set out in the CG Code, save and except for the deviations from code provision A.2.1, as disclosed 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 it complies 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 2014.

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 2014.

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

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 2014.

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 2014 and the annual results for the year ended 31 December 2014, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 and the annual report for the year ended 31 December 2014, 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 2014 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, 24 March 2015

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.