

BIOSTIME 合生元

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

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

(Stock Code 股份代號: 1112)



Interim Report 2012

二零一二年中期報告





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聪明 IQ · 爱心 EQ · 活力 PQ



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Luo Fei (*Chairman and Chief Executive Officer*)
Ms. Kong Qingjuan

Non-executive Directors

Dr. Zhang Wenhui
Mr. Wu Xiong
Mr. Luo Yun
Mr. Chen Fufang

Independent Non-executive Directors

Dr. Ngai Wai Fung
Mr. Tan Wee Seng
Professor Xiao Baichun

BOARD COMMITTEES

Audit Committee

Dr. Ngai Wai Fung (*Chairman*)
Mr. Tan Wee Seng
Mr. Luo Yun

Nomination Committee

Mr. Luo Fei (*Chairman*)
Dr. Ngai Wai Fung
Mr. Tan Wee Seng

Remuneration Committee

Mr. Tan Wee Seng (*Chairman*)
Dr. Ngai Wai Fung
Mr. Luo Fei

JOINT COMPANY SECRETARIES

Ms. Wong Tak Yee *FCS, FCIS*
Ms. Yang Wenyun

AUTHORISED REPRESENTATIVES

Mr. Luo Fei
Ms. Wong Tak Yee

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC

29th Floor, Guangzhou International Finance Center
5 Zhujiang West Road, Zhujiang New Town
Tianhe District, Guangzhou
Guangdong Province 510623
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 2208 on 22/F of West Tower
Shun Tak Centre
Nos. 168–200 Connaught Road Central
Hong Kong

COMPANY'S WEBSITE

www.biostime.com.cn

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation
Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

LEGAL ADVISOR

Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

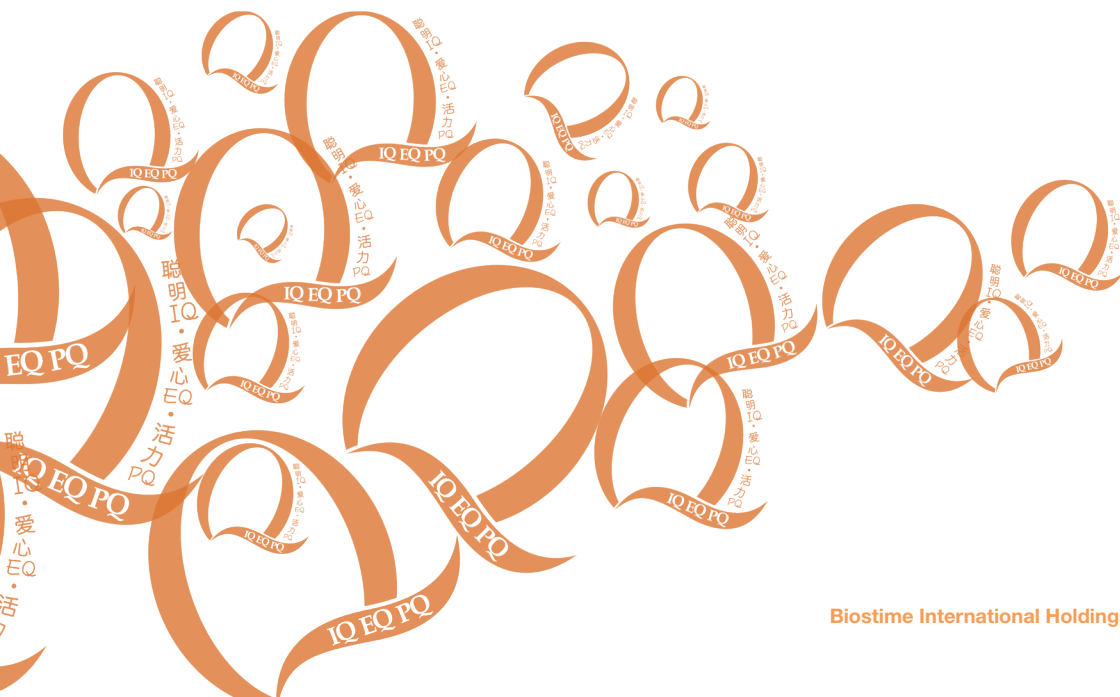


CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman, KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

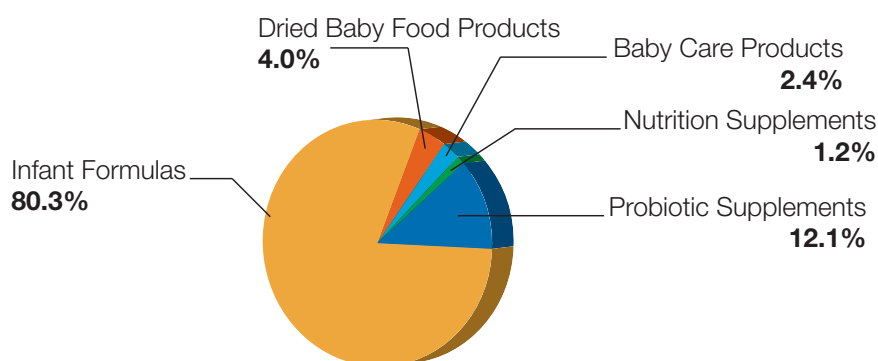


FINANCIAL HIGHLIGHTS

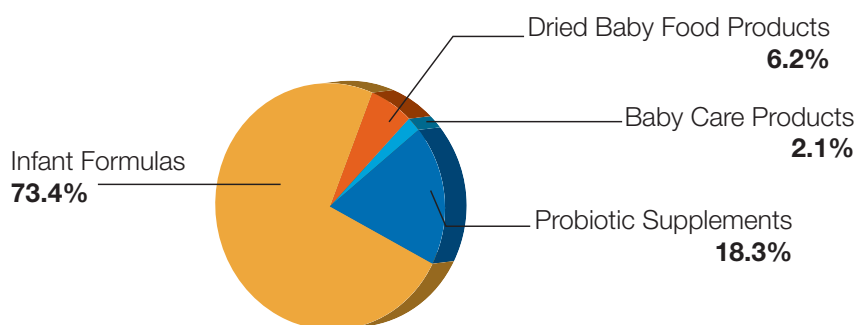
	Six months ended 30 June		% of change
	2012 RMB'000	2011 RMB'000	
Revenue	1,362,742	867,550	57.1%
Gross profit	893,596	589,694	51.5%
Profit before tax	372,889	249,693	49.3%
Profit for the period	273,926	195,626	40.0%
Earnings per share			
– Basic	RMB0.46	RMB0.32	43.8%
– Diluted	RMB0.45	RMB0.32	40.6%

REVENUE BY PRODUCT SEGMENT

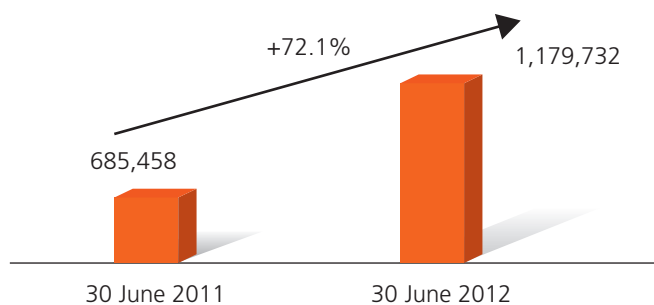
Six months ended 30 June 2012



Six months ended 30 June 2011



No. of active Mama100 members



BUSINESS REVIEW

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

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

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

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

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

Mama100 Membership Program

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

BUSINESS REVIEW (CONTINUED)

Distribution Channels

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

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

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

Co-operation with Upstream Suppliers

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



LONG-TERM INCENTIVE TO EMPLOYEES

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

PROSPECTS

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

CHALLENGES

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

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

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

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

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

Probiotic supplements

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

Infant formulas

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



RESULTS OF OPERATION (CONTINUED)

Revenue (Continued)

Dried baby food products

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

Baby care products

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

Nutrition supplements

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

Gross profit and gross profit margin

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

Other income and gains

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

Selling and distribution costs

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

RESULTS OF OPERATION (CONTINUED)

Administrative expenses

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

Other expenses

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

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

Income tax expenses

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

Operating profit for the period

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



Note:

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

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

Investing activities

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

Financing activities

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

Cash and bank balances

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

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Working capital cycle

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

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

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



Notes:

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

CORPORATE GOVERNANCE CODE

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

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

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

AUDIT COMMITTEE

The Audit Committee was established on 25 November 2010 in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Old CG Code. For the purpose of complying with the New CG Code adopted by the Company on 20 March 2012, the Board adopted revised terms of reference for the Audit Committee on 20 March 2012. The Audit Committee consists of three members, namely Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Mr. Luo Yun, all of whom are non-executive Directors and the majority of whom are independent non-executive Directors. Dr. Ngai Wai Fung, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors; reviewing the interim and annual reports and accounts of the Group; and overseeing the Group's financial reporting system and internal control procedures.

The Audit Committee has held meetings to discuss the auditing, internal controls and financial reporting matters including the review of the interim results and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 25 November 2010 with written terms of reference in compliance with the Old CG Code. For the purpose of complying with the New CG Code adopted by the Company on 20 March 2012, the Board adopted revised terms of reference for the Remuneration Committee on 20 March 2012. The Remuneration Committee consists of three members, namely Mr. Tan Wee Seng, Mr. Luo Fei and Dr. Ngai Wai Fung, the majority of whom are independent non-executive Directors. Mr. Tan Wee Seng was appointed as the chairman of the Remuneration Committee.

The primary objectives of the Remuneration Committee include making recommendations on the Company's remuneration policy and structure for all Directors' and senior management's remuneration, and remuneration packages of the individual executive Directors and the senior management. The Remuneration Committee is also responsible for establishing a formal and transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates (as defined in the Listing Rules) will be involved in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department of the Company is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults with the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

NOMINATION COMMITTEE

The Nomination Committee was established on 25 November 2010 with written terms of reference in compliance with the Old CG Code. For the purpose of complying with the New CG Code adopted by the Company on 20 March 2012, the Board adopted revised terms of reference for the Nomination Committee on 20 March 2012. The chairman is Mr. Luo Fei, an executive Director, and the two other members are Dr. Ngai Wai Fung and Mr. Tan Wee Seng, both of whom are independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

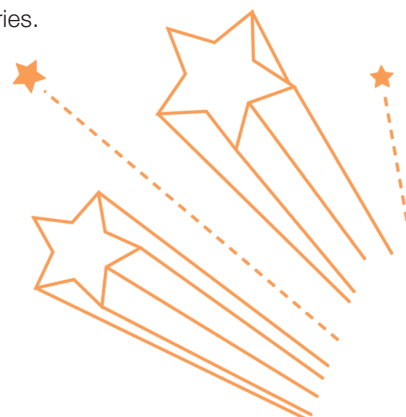
The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees are available to answer questions at shareholders' meetings.

The last shareholders' meeting was the annual general meeting held on 30 April 2012 at The Excelsior, Hong Kong for approval of, among others, the general mandates to issue and purchase shares of the Company and the re-election and re-appointment of Directors. All proposed ordinary resolutions were passed by way of poll at the meeting.

During the six months ended 30 June 2012, the Company participated in two investors' conferences, three roadshows and more than 200 individual meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the period are summarized as follows:

Date	Event	Organizer	Location
January 2012	UBS Greater China Conference	UBS Securities Asia Limited	Shanghai
March 2012	2011 Annual Report Roadshow	Jefferies Hong Kong Limited CLSA Limited Piper Jaffray Asia Securities Limited	Hong Kong
April 2012	2011 Annual Report Roadshow	The Hongkong and Shanghai Banking Corporation Limited Jefferies Hong Kong Limited	Paris, Frankfurt, London, Edinburgh, New York, Boston, Chicago, San Francisco
June 2012	Ninth Annual China Growth Conference	Piper Jaffray Asia Securities Limited	Hong Kong
June 2012	KGI Taipei Roadshow	KGI Asia Limited	Taipei

To promote effective communication, the Company maintains a website at www.biostime.com.cn, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted and are available for public access. Investors may write directly to the Company or via email to IR@biostime.com.cn for any enquiries.



REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have not been audited but have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

During the six months ended 30 June 2012, based on the Company's instructions, the trustee of the Share Award Scheme (as defined in the section headed "Share Award Scheme" below) has purchased a total of 4,150,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at a total consideration of about HK\$69,853,000.

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

SHARE OPTION SCHEMES

The Company has adopted two share option schemes, pursuant to which the Company is entitled to grant options prior to and after the listing of the Company on the Main Board of the Stock Exchange. The details of both share option schemes are as follows:

Share Option Scheme

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the shareholders of the Company on 25 November 2010 and the terms of such Share Option Scheme are disclosed in the prospectus of the Company dated 3 December 2010.

On 1 June 2012 (the "Date of Grant"), 768,474 share options (the "Share Options") to subscribe for 768,474 ordinary shares of HK\$0.01 each in the share capital of the Company (the "Shares") were granted to grantees (the "Grantees") under the Share Option Scheme. The closing price of the Shares immediately before the Date of Grant was HK\$19.48 per Share.



SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (Continued)

Particulars and movements of Share Options under the Share Option Scheme during the six months ended 30 June 2012 by category of Grantees were as follows:

Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share	Number of Share Options			
			Outstanding as at 1 January 2012	Granted during the six months ended 30 June 2012	Lapsed during the six months ended 30 June 2012	Outstanding as at 30 June 2012
Directors						
Dr. Ngai Wai Fung	16/12/2011	HK\$12.12	100,000	—	—	100,000
Mr. Tan Wee Seng	16/12/2011	HK\$12.12	100,000	—	—	100,000
Prof. Xiao Baichun	16/12/2011	HK\$12.12	100,000	—	—	100,000
Sub-total			300,000	—	—	300,000
Other employees	09/06/2011	HK\$15.312	904,315	—	(60,310)	844,005
	29/11/2011	HK\$11.52	1,237,139	—	(140,145)	1,096,994
	01/06/2012	HK\$19.64	—	768,474	—	768,474
Total			2,441,454	768,474	(200,455)	3,009,473

All Share Options granted since the adoption of the Share Option Scheme till 30 June 2012 shall vest in the Grantees in accordance with the timetable below with a 6-year exercise period (for this purpose, the date or each such date on which the Share Options are to vest being hereinafter referred to as a “Vesting Date”):

Vesting Date	Percentage of Share Options to vest
Any time after the third anniversary of 17 December 2010	30% of the total number of Share Options granted
Any time after the fourth anniversary of 17 December 2010	30% of the total number of Share Options granted
Any time after the fifth anniversary of 17 December 2010	40% of the total number of Share Options granted

No Share Options granted under the Share Option Scheme were exercised or cancelled during the six months ended 30 June 2012.

Pre-IPO Share Option Scheme

The purpose of the pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) is to give the Directors, senior management, employees and business partners of the Company an opportunity to have a personal stake in the Company and help motivate the Directors, senior management, employees and business partners to optimize their performance and efficiency to the Group and/or to reward them for their past contributions, and also to retain or otherwise maintain on-going relationships with them whose contributions are important to the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by a written resolution of the sole shareholder of the Company dated 12 July 2010, are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price per Share for all options granted under the Pre-IPO Share Option Scheme (“Pre-IPO Share Options”) is HK\$2.53;

SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme (Continued)

(b) the total number of Shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 11,150,249 Shares, and no further options will be granted under the Pre-IPO Share Option Scheme on or after 17 December 2010, the date of the listing of the Shares of the Company on the Main Board of the Stock Exchange (the "Listing Date");

(c) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

Period within which option can be exercised	Maximum percentage of entitlement
Any time after the third anniversary of the Listing Date	30% of the total numbers of options granted
Any time after the fourth anniversary of the Listing Date	30% of the total numbers of options granted
Any time after the fifth anniversary of the Listing Date	40% of the total numbers of options granted

(d) there is a 6-year exercise period for each option granted under the Pre-IPO Share Option Scheme.

A total of 11,150,249 Shares were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HK\$1.00 paid by each grantee. During the six months ended 30 June 2012, 10 employees were no longer eligible for Pre-IPO Share Options due to such employees' failure to meet performance target or retirement, and 137,283 Pre-IPO Share Options became lapsed. Particulars and movements of Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the six months ended 30 June 2012 by category of grantees are set out below:

Category of grantees	Number of Pre-IPO Share Options		
	Outstanding as at 1 January 2012	Lapsed during the six months ended 30 June 2012	Outstanding as at 30 June 2012
Directors			
Mr. Luo Fei	621,239	—	621,239
Ms. Kong Qingjuan	381,558	—	381,558
Dr. Zhang Wenhui	404,795	—	404,795
Sub-total	1,407,592	—	1,407,592
Others			
Senior management members	2,655,665	—	2,655,665
Other employees	6,083,162	(137,283)	5,945,879
Business partners	100,000	—	100,000
Sub-total	8,838,827	(137,283)	8,701,544
Total	10,246,419	(137,283)	10,109,136

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were exercised or cancelled during the six months ended 30 June 2012.

SHARE AWARD SCHEME

The share award scheme (the “Share Award Scheme”) of the Company was adopted by the Board on 28 November 2011 (the “Adoption Date”) and amended by the Board on 30 March 2012. The purpose of the Share Award Scheme is to recognize the contributions of certain Directors, senior management and employees of the Company and its subsidiaries and to retain and motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

Subject to the terms of the Share Award Scheme and the Listing Rules, the Board may at any time make an offer to any eligible person it may in its absolute discretion select to accept the grant of an award over such number of Shares as it may determine. Shares will be acquired by the independent trustee of the Share Award Scheme on the market out of the funds contributed by the Company and be held in trust for the relevant participants in accordance with the provisions of the Share Award Scheme. The vesting period shall, in any event, be no longer than ten years.

The Board shall not make any further award which will result in the number of Shares awarded by the Board under the Share Award Scheme would represent in excess of 10% of the issued share capital of the Company as at the Adoption Date. In any event, the unvested Shares held by the trustee at any time shall be less than 5% of the issued share capital of the Company. The maximum number of Shares which may be awarded to a participant under the Share Award Scheme shall not exceed 1% of the issued shares capital of the Company as at the Adoption Date.

Subject to any early termination as may be determined by the Board, the Share Award Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date.

Details of the Share Award Scheme are set out in the Company’s announcement dated 28 November 2011.

On 4 January 2012 and 30 March 2012, the Board resolved to pay RMB28,841,276.00 and RMB30,000,000.00, respectively, to the trustee of the Share Award Scheme, so that the trustee would then purchase and grant relevant Shares to certain grantees under the Share Award Scheme.

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

On 30 March 2012, the Board resolved to grant 2,315,882 awarded Shares (the “Awarded Shares”) to eligible persons under the Share Award Scheme with vesting date being 30 September 2012.

On 3 July 2012, the Board further resolved to grant 1,734,739 Awarded Shares to eligible persons under the Share Award Scheme with vesting date being 3 July 2013.

Among the Awarded Shares granted, an aggregate of 152,000 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and an aggregate of 75,000 Awarded Shares were granted to Ms. Kong Qingjuan, the chief operating officer and an executive Director.

The Awarded Shares granted under the Share Award Scheme on 30 March 2012 and 3 July 2012, in aggregate, represented approximately 0.67% of the Company’s issued share capital as at the Adoption Date.

During the six months ended 30 June 2012, 31,506 of the Awarded Shares were forfeited. As at the date of this Interim Report, there were 4,019,115 outstanding Awarded Shares held by the trustee of the Share Award Scheme for relevant grantees, and 130,885 Shares held by the trustee have yet to be awarded (which include 31,506 Awarded Shares which were forfeited).

Further details in relation to the Share Award Scheme are set out in note 26 to the financial statements of this Interim Report.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2012, the interests and short positions of the Directors and the chief executives of the Company in the share capital, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Name of Director	Capacity/Nature of interest	Long/Short position	Shares or Underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company (Note 4)
Luo Fei (Note 5)	Beneficial owner	Long position	621,239 (Note 1)	0.1031%
	Beneficial owner	Long position	97,000 (Note 2)	0.0161%
Kong Qingjuan (Note 6)	Beneficial owner	Long position	381,558 (Note 1)	0.0634%
	Beneficial owner	Long position	46,000 (Note 2)	0.0076%
Zhang Wenhui	Beneficial owner	Long position	404,795 (Note 1)	0.0672%
Ngai Wai Fung	Beneficial owner	Long position	100,000 (Note 3)	0.0166%
Tan Wee Seng	Beneficial owner	Long position	100,000 (Note 3)	0.0166%
Xiao Baichun	Beneficial owner	Long position	100,000 (Note 3)	0.0166%

Note 1: These are the Shares subject to the exercise of the Pre-IPO Share Options granted by the Company under the Pre-IPO Share Option Scheme on 16 July 2010. Details of the Company's Pre-IPO Share Option Scheme are set out in the section headed "Share Option Schemes — Pre-IPO Share Option Scheme" above.

Note 2: These are the Awarded Shares granted by the Company under the Share Award Scheme on 30 March 2012. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" above.

Note 3: These are the Shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 16 December 2011. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes — Share Option Scheme" above.

Note 4: As at 30 June 2012, the total number of the issued Shares of the Company was 602,294,000.

Note 5: Subsequent to the balance sheet date of 30 June 2012, 55,000 Awarded Shares were granted by the Company to Mr. Luo Fei under the Share Award Scheme on 3 July 2012, representing approximately 0.0091% of the Company's issued share capital as at 3 July 2012.

Note 6: Subsequent to the balance sheet date of 30 June 2012, 29,000 Awarded Shares were granted by the Company to Ms. Kong Qingjuan under the Share Award Scheme on 3 July 2012, representing approximately 0.0048% of the Company's issued share capital as at 3 July 2012.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the Shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2012.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2012, the following person, other than any Director or the chief executive of the Company, was the substantial shareholder (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Long/Short position	Number of Shares	Approximate percentage of shareholding (Note 1)
Biostime Pharmaceuticals (China) Limited (Note 2)	Beneficial owner	Long position	450,000,000	74.7%

Note 1: As at 30 June 2012, the total number of the issued Shares of the Company was 602,294,000.

Note 2: Biostime Pharmaceuticals (China) Limited is owned as to 28.15% by Mr. Luo Fei, 26.00% by Mr. Wu Xiong, 19.55% by Mr. Luo Yun, 11.90% by Mr. Chen Fufang, 10.00% by Dr. Zhang Wenhui and 4.40% by Ms. Kong Qingjuan.

Save as mentioned above, as at 30 June 2012, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CHANGES IN INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Changes in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2011 Annual Report are set out below:

Dr. Zhang Wenhui (張文會), has been re-designated from an executive Director to a non-executive Director of the Company with effect from 25 June 2012. He also resigned his other positions in the Company, including the position as the chief technology officer of the Company, with effect from 25 June 2012. Dr. Zhang also resigned as the general manager of the technology center of Biostime (Guangzhou) Health Products Limited ("Biostime Health"), a subsidiary of the Company with effect from 25 June 2012.

Dr. Zhang Wenhui has terminated his service contract as an executive Director with the Company with effect from 25 June 2012 and entered into a new letter of appointment as a non-executive Director with the Company for an initial term of three years commencing on 25 June 2012 until terminated by not less than one-month's notice in writing served by either party on the other. He will not receive any Director's fee during his appointment as a non-executive Director. He is subject to retirement by rotation and re-election at least once every three years in accordance with the articles of association of the Company.

CHANGES IN INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Changes in Information of Directors (Continued)

Mr. Luo Yun (羅雲), a non-executive Director of the company, has completed the EMBA course of Fudan University (復旦大學) in Shanghai and was awarded an EMBA degree in July 2012.

Mr. Tan Wee Seng (陳偉成), an independent non-executive Director of the Company, has been re-designated from a non-executive director to an independent non-executive director of Sa Sa International Holdings Limited (the shares of which are listed on the Main Board of the Stock Exchange) (Stock Code: 178) with effect from 26 June 2012.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Changes in Information of Senior Management

The changes in information of senior management of the Company subsequent to the date of the 2011 Annual Report are set out below:

Dr. Patrice Malard, the former chief scientific officer of the Company, was appointed as the chief technology officer of the Company on 25 June 2012. He was also appointed as the general manager of the technology center of Biostime Health with effect from 25 June 2012. Dr. Patrice Malard is now primarily responsible for research and development, product quality control and technology support.

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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





To the board of directors of Biostime International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Biostime International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 26 to 50, which comprise the interim condensed consolidated statement of financial position as at 30 June 2012 and the related interim condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board (the "IASB").

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of Interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

22nd Floor

CITIC Tower

1 Tim Mei Avenue, Central

Hong Kong

15 August 2012

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2012

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	69,163	59,420
Prepaid land lease payment	12	20,356	—
Intangible assets		1,339	1,423
Deposits	13	7,350	30,461
Time deposits	18	457,466	160,000
Deferred tax assets	22	69,955	36,397
Total non-current assets		625,629	287,701
CURRENT ASSETS			
Inventories	14	360,053	297,387
Trade and bills receivables	15	1,715	9,721
Prepayments, deposits and other receivables	16	36,663	29,156
Investments in principal guaranteed deposits	17	171,802	—
Cash and cash equivalents	18	1,463,788	1,814,101
Total current assets		2,034,021	2,150,365
CURRENT LIABILITIES			
Trade payables	19	128,337	67,200
Other payables and accruals	20	377,286	265,145
Interest-bearing bank loan	21	81,522	—
Tax payable		86,348	82,709
Total current liabilities		673,493	415,054
NET CURRENT ASSETS		1,360,528	1,735,311
TOTAL ASSETS LESS CURRENT LIABILITIES		1,986,157	2,023,012
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	56,866	45,452
Net assets		1,929,291	1,977,560
EQUITY			
Equity attributable to owners of the parent			
Issued capital	24	5,161	5,161
Shares held for the Share Award Scheme	26	(56,756)	—
Reserves		1,980,886	1,678,987
Proposed dividends	9	—	293,412
Total equity		1,929,291	1,977,560

Luo Fei
Director

Kong Qingjuan
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2012

	Attributable to owners of the parent											
	Issued capital	Shares held for the			Capital reserve ⁽²⁾	Statutory reserve ⁽³⁾	Share option reserve	Share award reserve	Exchange fluctuation reserve	Retained profits	Proposed dividends	Total
		Share premium account	Share Award Scheme	Contributed surplus ⁽¹⁾								
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2012	5,161	915,177	–	26,992	95	80,456	8,370	–	(64,063)	711,960	293,412	1,977,560
Profit for the period	–	–	–	–	–	–	–	–	–	273,926	–	273,926
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	4,246	–	–	4,246
Total comprehensive income for the period	–	–	–	–	–	–	–	–	4,246	273,926	–	278,172
Equity-settled share option arrangements (note 25)	–	–	–	–	–	–	3,865	–	–	–	–	3,865
Shares purchased for the Share Award Scheme (note 26)	–	–	(56,756)	–	–	–	–	–	–	–	–	(56,756)
Shares awarded under the Share Award Scheme (note 26)	–	–	–	–	–	–	–	17,840	–	–	–	17,840
Final 2011 dividend declared	–	910 [#]	–	–	–	–	–	–	–	–	(132,035)	(131,125)
Special 2011 dividend declared	–	1,112 [#]	–	–	–	–	–	–	–	–	(161,377)	(160,265)
At 30 June 2012 (Unaudited)	5,161	917,199*	(56,756)	26,992*	95*	80,456*	12,235*	17,840*	(59,817)*	985,886*	–	1,929,291
At 1 January 2011	5,141	1,266,718	–	26,992	95	21,177	2,649	–	(8,165)	243,888	101,397	1,659,892
Profit for the period	–	–	–	–	–	–	–	–	–	195,626	–	195,626
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(30,406)	–	–	(30,406)
Total comprehensive income for the period	–	–	–	–	–	–	–	–	(30,406)	195,626	–	165,220
Issuance of new shares upon exercise of the over-allotment options	20	21,467	–	–	–	–	–	–	–	–	–	21,487
Share issue expenses	–	(539)	–	–	–	–	–	–	–	–	–	(539)
Equity-settled share option arrangements	–	–	–	–	–	–	2,678	–	–	–	–	2,678
Final 2010 dividend declared	–	–	–	–	–	–	–	–	–	–	(101,397)	(101,397)
At 30 June 2011 (Unaudited)	5,161	1,287,646	–	26,992	95	21,177	5,327	–	(38,571)	439,514	–	1,747,341

* These reserve accounts comprise the consolidated reserves of RMB1,980,886,000 in the interim condensed consolidated statement of financial position as at 30 June 2012.

Dividend income arising on the shares held for the Share Award Scheme is deducted from the aggregate of dividends proposed and paid.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2012

Notes:

- (1) The contributed surplus represents the excess of the nominal value of shares of the subsidiaries acquired pursuant to the group reorganisation (the "Reorganisation"), over the nominal value of the Company's shares issued and cash consideration paid in exchange therefor.
- (2) The capital reserve represents 1% of equity in Biostime (Guangzhou) Health Products Limited ("Biostime Health") contributed by Biostime Pharmaceuticals (China) Limited ("Biostime Pharmaceuticals"), the ultimate shareholder, in year 2009 when Biostime Health became a wholly-owned subsidiary of the Group.
- (3) In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with generally accepted accounting principles in the PRC, to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2012

	Note	Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Net cash flows from operating activities		378,944	185,741
Net cash flows used in investing activities		(481,088)	(8,426)
Net cash flows used in financing activities		(266,799)	(89,789)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(368,943)	87,526
Cash and cash equivalents at beginning of period		1,490,456	1,728,211
Effect of exchange rate changes, net		4,279	(30,406)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	18	1,125,792	1,785,331

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2011, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") (which also include International Accounting Standards ("IASs") and Interpretations) and the accounting policy for held-to-maturity investments as disclosed in note 3.1 below.

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

Held-to-maturity investments

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these unaudited interim condensed consolidated financial statements:

IFRS 1 Amendments	Amendments to IFRS1 <i>Government Loans</i> ²
IFRS 7 Amendments	Amendments to IFRS 7 <i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ²
IFRS 9	<i>Financial Instruments</i> ⁴
IFRS 10	<i>Consolidated Financial Statements</i> ²
IFRS 11	<i>Joint Arrangements</i> ²
IFRS 12	<i>Disclosure of Interests in Other Entities</i> ²
Amendments to IFRS 10, IFRS 11 and IFRS 12	<i>Consolidated Financial Statements, Joint Arrangement and Disclosure of Interests in Other Entities: Transition Guidance</i> ²
IFRS 13	<i>Fair Value Measurement</i> ²
IAS 1 Amendments	Amendments to IAS 1 <i>Presentation of Items of Other Comprehensive Income</i> ¹
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits</i> ²
IAS 27 (Revised)	<i>Separate Financial Statements</i> ²
IAS 28 (Revised)	<i>Investments in Associates and Joint Ventures</i> ²
IAS 32 Amendments	Amendments to IAS 32 <i>Presentation – Offsetting Financial Assets and Financial Liabilities</i> ³
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ²
Annual Improvements Project	<i>Annual Improvements 2009 – 2011 Cycle</i> ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application, but is not yet in a position to state whether these new and revised IFRSs will have a significant impact on the Group's results of operations and financial position.

4. OPERATING SEGMENT INFORMATION

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

- (a) the probiotic supplements segment comprises the production of probiotic supplements in the form of sachets, capsules and tablets for infants, children and expectant mothers;
- (b) the infant formulas segment comprises the production of infant formulas for children under three years old and milk formulas for expectant and nursing mothers;
- (c) the dried baby food products segment comprises the production of dried baby food products made from natural foods, such as meat, seafood, fruit and vegetables, for infants and young children;
- (d) the baby care products segment comprises the production of baby care products for infants and children, including baby diapers and toiletry kits as well as personal care products for nursing mothers, such as nursing pads; and
- (e) the nutrition supplements segment comprises the production of microencapsulated milk calcium chewable tablets and DHA chews/soft capsules for children, pregnant and lactating mothers.

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2012 (Unaudited)	Probiotic supplements RMB'000	Infant formulas RMB'000	Dried baby food products RMB'000	Baby care products RMB'000	Nutrition supplements RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	164,461	1,094,732	54,361	32,760	16,428	—	1,362,742
Segment results	125,569	711,414	31,376	14,945	10,292	—	893,596
<i>Reconciliations:</i>							
Interest income							15,784
Other income and unallocated gains							5,849
Corporate and other unallocated expenses							(542,165)
Finance costs							(175)
Profit before tax							372,889
Other segment information:							
Depreciation and amortisation	1,443	990	483	76	343	7,040	10,375
Write-down/(back) of inventories to net realisable value	(57)	36	376	656	75	—	1,086
Capital expenditure*	398	30	20	40	232	19,401	20,121
Six months ended 30 June 2011 (Unaudited)	Probiotic supplements RMB'000	Infant formulas RMB'000	Dried baby food products RMB'000	Baby care products RMB'000	Nutrition supplements RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	159,296	636,550	53,631	18,073	—	—	867,550
Segment results	127,066	424,266	32,058	6,304	—	—	589,694
<i>Reconciliations:</i>							
Interest income							7,392
Other income and unallocated gains							22,344
Corporate and other unallocated expenses							(369,737)
Finance costs							—
Profit before tax							249,693
Other segment information:							
Depreciation and amortisation	1,502	142	424	12	—	3,263	5,343
Write-down of inventories to net realisable value	17	6	122	331	—	—	476
Capital expenditure*	248	543	90	—	—	14,617	15,498

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

6. FINANCE COSTS

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

7. PROFIT BEFORE TAX

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

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

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

[#] Included in "Cost of sales" in the interim condensed consolidated statement of comprehensive income.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

8. INCOME TAX

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

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

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2012 and 2011.

PRC enterprise income tax ("EIT")

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

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

France corporate income tax

No provision for France corporate income tax has been made as the Group did not generate any assessable profits arising in France during the six months ended 30 June 2012 and 2011.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

9. DIVIDENDS

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

Note: The 2012 interim dividend on ordinary shares of RMB112,593,000 is calculated after the elimination of RMB781,000 for shares held for the Share Award Scheme (note 26).

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

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

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

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Earnings		
Profit attributable to owners of the parent used in the basic earnings per share calculation	273,926	195,626
	Number of Shares	
Shares		
Weighted average number of ordinary shares in issue	602,294,000	602,166,556
Weighted average number of shares purchased for the Share Award Scheme	(2,948,995)	—
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	599,345,005	602,166,556
Effect of dilution — weighted average number of ordinary shares:		
Share options and awarded shares	12,180,396	8,419,327
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	611,525,401	610,585,883

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

11. PROPERTY, PLANT AND EQUIPMENT

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

12. PREPAID LAND LEASE PAYMENT

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

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

13. DEPOSITS

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

14. INVENTORIES

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

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

15. TRADE AND BILLS RECEIVABLES

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

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

Trade receivables are unsecured and non-interest-bearing.

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

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

17. INVESTMENTS IN PRINCIPAL GUARANTEED DEPOSITS

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

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

18. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

18. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS (CONTINUED)

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

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

19. TRADE PAYABLES

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

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

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

20. OTHER PAYABLES AND ACCRUALS

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

21. INTEREST-BEARING BANK LOAN

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

22. DEFERRED TAX

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

Deferred tax assets

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

Deferred tax liabilities

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

23. DEFERRED INCOME

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

24. SHARE CAPITAL

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

25. SHARE OPTION SCHEMES

The Company adopted a pre-initial public offering share option scheme (the “Pre-IPO Share Option Scheme”) on 12 July 2010 and a share option scheme (the “Share Option Scheme”) on 25 November 2010 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

Pre-IPO Share Option Scheme

The following share options granted under the Pre-IPO Share Option Scheme were outstanding during the period:

	Number of options Six months ended 30 June	
	2012 ’000	2011 ’000
At 1 January	10,246	10,913
Forfeited during the period	(137)	(344)
At 30 June	10,109	10,569

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme at 30 June 2012 are as follows:

Number of options ’000	Exercise price HK\$ per share	Exercise period
3,033	2.53	17-12-13 to 17-12-16
3,033	2.53	17-12-14 to 17-12-16
4,043	2.53	17-12-15 to 17-12-16
10,109		

The Group recognised a share option expense related to share options under the Pre-IPO Share Option Scheme of RMB2,317,000 during the six months ended 30 June 2012 (six months ended 30 June 2011: RMB2,586,000).

At the end of the period, the Company had 10,109,136 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options under the Pre-IPO Share Option Scheme would, under the present capital structure of the Company, result in the issue of 10,109,136 additional ordinary shares of the Company and additional share capital of HK\$101,000 (RMB82,000) and share premium of HK\$25,475,000 (RMB20,768,000) (before issue expenses).

At the date of approval of these interim condensed consolidated financial statements, the Company had 10,065,434 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.7% of the Company’s shares in issue as at that date.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

25. SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme

The following share options were outstanding under the Share Option Scheme during the period:

	Six months ended 30 June			
	2012		2011	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	13.00	2,441	N/A	—
Granted during the period	19.64	768	15.31	979
Forfeited during the period	12.66	(200)	N/A	—
At 30 June	14.72	3,009	15.31	979

The fair value of the share options under the Share Option Scheme granted during the period was estimated at approximately RMB4,125,000 as at 1 June 2012, the date of grant, using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

	First batch	Second batch	Third batch
Dividend yield (%)	3.06	3.06	3.06
Expected volatility (%)	50.79	50.79	50.79
Risk-free interest rate (%)	0.45	0.45	0.45
Expected life of share options (years)	3.05	3.55	4.05
Weighted average share price (HK\$ per share)	19.64	19.64	19.64

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25. SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

The expected life of the options is based on the historical data over the prior periods and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The exercise prices and exercise periods of the share options outstanding as at the end of the period are as follows:

30 June 2012

Number of options '000	Exercise price HK\$ per share	Exercise period
253	15.312	17-12-13 to 17-12-16
329	11.52	17-12-13 to 17-12-16
90	12.12	17-12-13 to 17-12-16
231	19.64	17-12-13 to 17-12-16
253	15.312	17-12-14 to 17-12-16
329	11.52	17-12-14 to 17-12-16
90	12.12	17-12-14 to 17-12-16
231	19.64	17-12-14 to 17-12-16
338	15.312	17-12-15 to 17-12-16
439	11.52	17-12-15 to 17-12-16
120	12.12	17-12-15 to 17-12-16
306	19.64	17-12-15 to 17-12-16
3,009		

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

25. SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

31 December 2011

Number of options '000	Exercise price HK\$ per share	Exercise period
271	15.312	17-12-13 to 17-12-16
371	11.52	17-12-13 to 17-12-16
90	12.12	17-12-13 to 17-12-16
271	15.312	17-12-14 to 17-12-16
371	11.52	17-12-14 to 17-12-16
90	12.12	17-12-14 to 17-12-16
362	15.312	17-12-15 to 17-12-16
495	11.52	17-12-15 to 17-12-16
120	12.12	17-12-15 to 17-12-16
<hr/> 2,441 <hr/>		

The Group recognised a share option expense related to share options under the Share Option Scheme of RMB1,548,000 during the six months ended 30 June 2012 (six months ended 30 June 2011: RMB92,000).

At the end of the period, the Company had 3,009,473 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options under the Share Option Scheme would, under the present capital structure of the Company, result in the issue of 3,009,473 additional ordinary shares of the Company and additional share capital of HK\$30,000 (RMB25,000) and share premium of HK\$44,260,000 (RMB36,081,000) (before issue expenses).

At the date of approval of these interim condensed consolidated financial statements, the Company had 2,934,633 share options outstanding under the Share Option Scheme, which represented approximately 0.5% of the Company's shares in issue as at that date.

26. SHARE AWARD SCHEME

A share award scheme (the "Share Award Scheme") was adopted by the board on 28 November 2011. On 30 March 2012, the board resolved to amend the definition of Vesting Period in the Share Award Scheme to mean the period between the Grant Date and the Vesting Date, both inclusive, and in any event, such period shall not be longer than ten years.

The Trustee purchased in aggregate 4,150,000 shares of the Company at a total cost (including related transaction costs) of approximately HK\$69,853,000 (RMB56,756,000) during the period.

On 30 March 2012, the Board approved the grant of 2,315,882 shares of the Company to be awarded to designated employees under the Share Award Scheme, among which, 143,000 awarded shares were granted to executive directors of the Company. The awarded shares would be transferred to the employees by the trustee at nil consideration upon vesting on 30 September 2012. During the six months ended 30 June 2012, 31,506 of the awarded shares were forfeited.

The fair value of the awarded shares was estimated at approximately RMB36,079,000 based on the market price of the Company's shares at the grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares. The Group recognised a share award expense of RMB17,840,000 during the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

Subsequent to the end of the period, on 3 July 2012, a total of 1,734,739 awarded shares of the Company were granted to designated employees under the Share Award Scheme, among which, 84,000 awarded shares were granted to executive directors of the Company. The awarded shares would be transferred to the employees by the trustee at nil consideration upon vesting on 3 July 2013. The price of the Company's shares at the date of grant was HK\$21.15 per share.

At the date of approval of these interim condensed consolidated financial statements, 130,885 shares held for the Share Award Scheme have yet to be awarded, taking into account 31,506 awarded shares which were forfeited.

27. CONTINGENT LIABILITIES

As at the end of the period, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

28. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office, production plants, warehouses and vehicles and under operating lease arrangements. Leases are negotiated for terms ranging from one to ten years.

As at 30 June 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within one year	26,530	27,089
In the second to fifth years, inclusive	45,880	56,411
After five years	643	1,873
	73,053	85,373

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group had the following capital commitments the end of the period:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	3,950	4,246
Intangible assets	48	198
	3,998	4,444

30. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related party transaction and balance

The Group had no material transaction with any related parties during the period and balance arising from the related party transaction as at the end of the period.

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Fees	675	378
Short-term employees benefits	16,896	13,841
Pension scheme contributions	428	487
Equity-settled share option expense	1,114	994
Equity-settled share award scheme expense	4,228	—
Total compensation paid to key management personnel	23,341	15,700

31. EVENT AFTER THE REPORTING PERIOD

After 30 June 2012, the directors declared an interim dividend on ordinary shares. Further details are disclosed in note 9.

32. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 15 August 2012.



BIOSTIME 合生元

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