

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 2013
二零一三年中期報告

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IQE

聪明 IQ

爱心 EQ

EQ

活力 PQ

PQ



Q 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

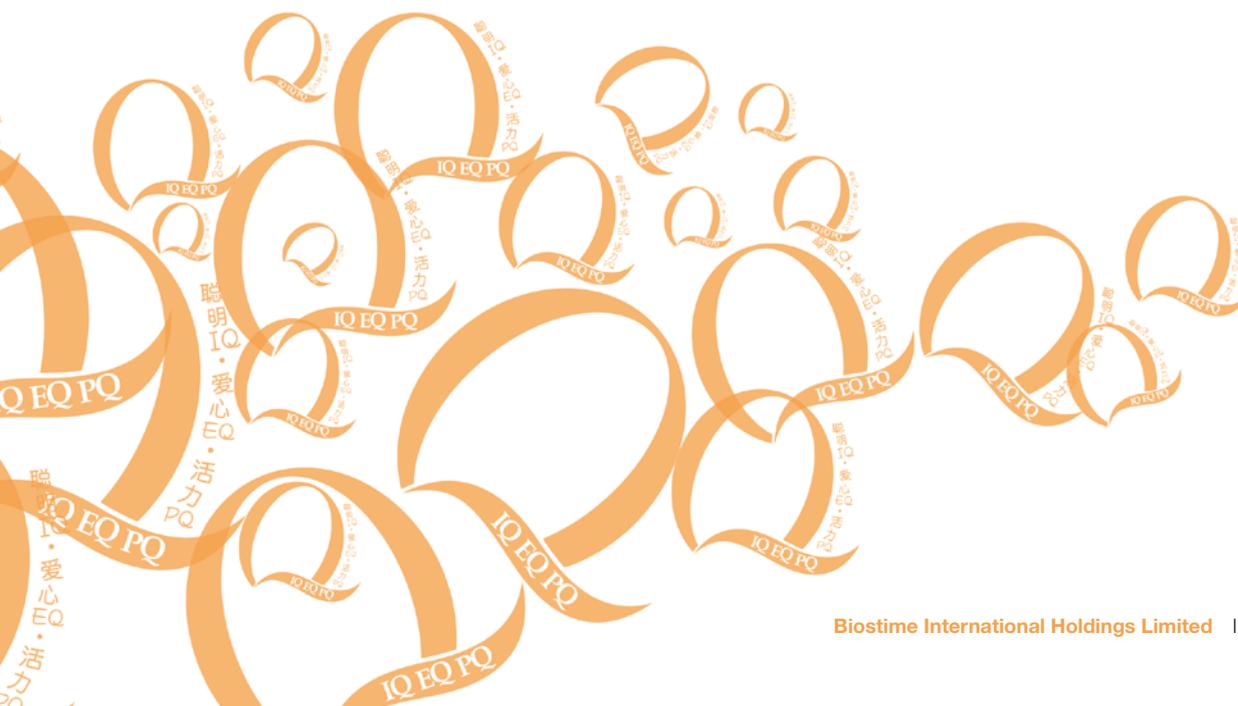
Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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



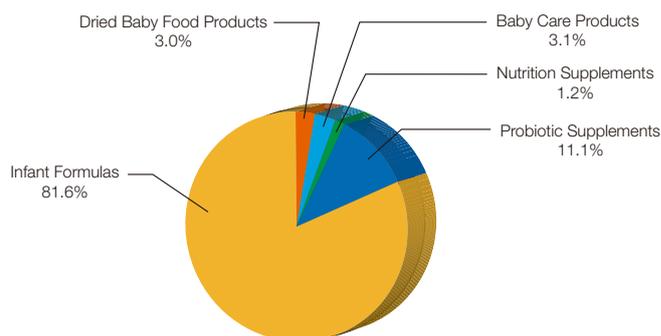
FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% of change
	2013 RMB'000	2012 RMB'000	
Revenue	2,061,481	1,362,742	51.3%
Gross profit	1,369,597	893,596	53.3%
Profit for the period	297,507	273,926	8.6%
Profit for the period excluding the one-off expense*	460,407	273,926	68.1%
Earnings per share			
– Basic	RMB0.50	RMB0.46	8.7%
– Diluted	RMB0.49	RMB0.45	8.9%

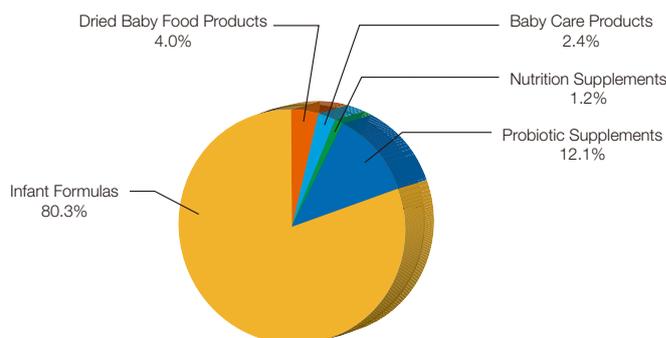
* This one-off expense is a fine of RMB162.9 million imposed by the National Development and Reform Commission of the People's Republic of China.

REVENUE BY PRODUCT SEGMENT

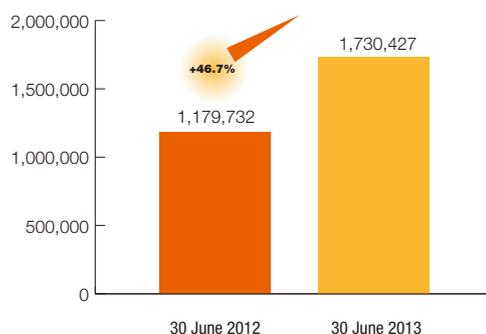
Six months ended 30 June 2013



Six months ended 30 June 2012



No. of active Mama100 members



BUSINESS REVIEW

Leveraging its high market reputation and established leading market position, Biostime International Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) continued to deliver strong results with growing revenue and profitability. For the six months ended 30 June 2013, the Group recorded revenue of RMB2,061.5 million, achieving a growth rate of 51.3% as compared with the same period last year. Profit for the period ended 30 June 2013 amounted to RMB297.5 million, increasing by 8.6% from the same period last year. Excluding the one-off fine of RMB162.9 million imposed by the National Development and Reform Commission (the “NDRC”) of the People’s Republic of China (the “PRC”), core profit for the period ended 30 June 2013 amounted to RMB460.4 million, representing a strong growth of 68.1% as compared with the same period last year.

The Group was devoted to providing high-end pediatric nutritional and baby care products in China, with high quality premium infant formulas. For the six months ended 30 June 2013, revenue of infant formulas reached RMB1,682.2 million at a strong growth of 53.7% as compared with the same period last year, accounting for 81.6% of the Group’s total revenue. Both high-tier and supreme-tier infant formulas reported strong growth, and respectively increased by 64.4% and 40.3% over the same period last year. Thanks to the Group’s unique member database marketing strategies, the Group sustained remarkable growth and further strengthened its position in the high-tier segment of infant formulas market, despite intensified competition in China. Revenue contribution from high-tier infant formulas increased to 59.3% of the total infant formulas revenue for the six months ended 30 June 2013, rising from 55.4% for the six months ended 30 June 2012. The Group will continue to grow in both the supreme-tier and high-tier infant formulas.

Probiotic supplements remained as the second biggest business segment of the Group. During the period ended 30 June 2013, the Group launched its premium food-class probiotic product – *Biostime Probiotics Powder for Children*, which was a new driver for the sales growth of probiotic supplements. With this new product, the Group increased distribution rate of the probiotic category and fulfilled the diversified needs of high-end consumers. Revenue of probiotic supplements increased by 38.8% to RMB228.3 million for the six months ended 30 June 2013 from RMB164.5 million for the six months ended 30 June 2012, accounting for 11.1% of the Group’s total revenue.

Baby care products, under the *BMcare*[™] brand, achieved revenue of RMB63.4 million for the six months ended 30 June 2013, rapidly growing by 93.7% from RMB32.8 million for the six months ended 30 June 2012.

Mama100 Membership Platform continued to play a critical role in the Group’s success. During the period, the Group continued to enhance cross-selling and database marketing through this integrated database marketing platform. As at 30 June 2013, the number of Mama100 active members increased to 1,730,427, representing an increase of 46.7% compared with 30 June 2012. For the six months ended 30 June 2013, sales generated by Mama100 active members contributed to about 90.6% of the Group’s total revenue, calculated by the membership points.

By the end of the first half of 2013, the Group registered increases in the number of VIP baby specialty stores to 11,402, retail sales organizations to 4,382 and Mama100 Members’ Zones in pharmacies to 822, representing increase rates of 37.0%, 31.4% and 36.8%, respectively, as compared with 30 June 2012. Through its sophisticated real-time distribution management system, the Group kept tracking the inventory and logistic of its products at the distributors’ level to avoid channel conflict and stuffing.

In light of the Group’s strategy to provide high quality premium infant formulas in China, the Group strengthened the cooperation with its upstream suppliers to ensure sufficient and stable supply of high quality products and to continually upgrade its infant formula process technology and innovative formulas. In March 2013, the Group signed a renewed infant formulas manufacturing agreement with La Laiterie de Montaigu, a renowned French dairy manufacturer, for a term of three years from 1 January 2014 to 31 December 2016. In July 2013, the Group signed a framework agreement with Isigny Sainte Mère (“ISM”), a renowned French dairy manufacturer, regarding the Group’s equity investment in and financing to ISM to enlarge ISM’s production capacity of infant formulas and further enhance long term and stable supply of high quality infant formulas to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

In June 2013, the NDRC of the PRC conducted an anti-monopoly investigation into BiosTime, Inc. (Guangzhou) (“Biostime Guangzhou”), a wholly-owned subsidiary of the Company. In response to the investigation, the Group immediately amended relevant terms in relation to fixed prices and price floors in the previous distribution agreements so as to comply with the Anti-Monopoly Law of the PRC and arranged re-signing of distribution agreements. In addition, the Group carried out a series of consumer rewards activities, in which consumers of infant formulas products are rewarded with additional 50% of accumulation points since 10 July 2013. In order to deepen the rewarding to consumers of the Group’s products and further enhance its business partners’ confidence, the Group lowered the ex-factory prices and suggested retail prices of its 10 unit products of infant formulas products, with effect from 27 July 2013. The Group believes these activities will bring an increase in sales volume, which will partially offset the impact on revenue resulting from lower ex-factory prices.

PROSPECTS

In the first half of 2013, the Group has cooperated with third party payment platform to install its payment system into Mama100 points POS machine, enabling members to settle payment via debit/credit cards and accumulate or redeem points on the same POS machine. The Group was also building up an Online-to-Offline business model by integrating online ordering platform and offline logistic resource of retail outlets. Looking forward to the second half of 2013, the Group will accelerate the mobile software upgrade to enable its members to place orders and settle the payment directly on the mobile application.

In order to satisfy the diversified high-end consumers’ needs in selecting infant formulas, the Group will launch a new infant formula brand – *Adimil* in the second half of 2013 for the premium market segment. The new brand will focus on nutrition enhancement and supplement to the Group’s existing infant formulas product portfolio.

RESULTS OF OPERATION

Revenue

The Group’s revenue increased by 51.3% to RMB2,061.5 million for the six months ended 30 June 2013 from RMB1,362.7 million for the six months ended 30 June 2012. This was mainly attributable to the continuous strong growth of sales generated from infant formulas. The following table sets forth the Group’s revenue by product segment for the periods indicated:

	Six months ended 30 June		% of growth
	2013 RMB’000	2012 RMB’000	
Probiotic supplements	228,306	164,461	38.8%
Infant formulas	1,682,183	1,094,732	53.7%
Dried baby food products	61,397	54,361	12.9%
Baby care products	63,442	32,760	93.7%
Nutrition supplements	26,153	16,428	59.2%
Total	2,061,481	1,362,742	51.3%

Probiotic supplements

Revenue of probiotic supplements increased by 38.8% to RMB228.3 million for the six months ended 30 June 2013 from RMB164.5 million for the six months ended 30 June 2012. The increase was mainly attributable to the newly launched premium food-class probiotic product – *Biostime Probiotics Powder for Children* in 2013, which was a new driver for the sales growth. The increase also represented the increase in sales volume driven by a range of marketing support activities.

Infant formulas

Revenue of infant formulas increased by 53.7% to RMB1,682.2 million for the six months ended 30 June 2013 from RMB1,094.7 million for the six months ended 30 June 2012. The increase was primarily due to the increase in sales volume driven by the increased Mama100 active members and the ever-growing market reputation. For the six months ended 30 June 2013, the revenue of high-tier and supreme-tier infant formulas increased by 64.4% and 40.3%, respectively, as compared with the same period last year. The revenue from high-tier infant formulas accounted for 59.3% of the total infant formulas revenue for the six months ended 30 June 2013, representing an increase from 55.4% for the six months ended 30 June 2012. The Group will continue to grow in both the supreme-tier and high-tier infant formulas.

Dried baby food products

Revenue of dried baby food products increased by 12.9% to RMB61.4 million for the six months ended 30 June 2013 from RMB54.4 million for the six months ended 30 June 2012. The increase was primarily due to the continuous increased sales volumes.

Baby care products

Thanks to the newly launched *BMcare Essential & Natural series* in October 2012, revenue of baby care products increased by 93.7% to RMB63.4 million for the six months ended 30 June 2013 from RMB32.8 million for the six months ended 30 June 2012. The increase was also attributable to the precise database marketing and cross-selling strategy.

Nutrition supplements

Revenue of nutrition supplements increased by 59.2% to RMB26.2 million for the six months ended 30 June 2013 from RMB16.4 million for the six months ended 30 June 2012. The nutrition supplements was an important segment for expanding the Group's product portfolio.

Gross profit and gross profit margin

For the six months ended 30 June 2013, gross profit increased by 53.3% to RMB1,369.6 million from RMB893.6 million for the six months ended 30 June 2012. The gross profit margin increased by 0.8 percentage points to 66.4% for the six months ended 30 June 2013 from 65.6% for the six months ended 30 June 2012. The increase in gross profit margin was mainly due to the impact of product mix, scale economy and the improved operational efficiency and effective cost control.

Other income and gains

Other income and gains for the six months ended 30 June 2013 amounted to RMB61.8 million, primarily consisting of the interest income of RMB43.9 million, net foreign exchange gain of RMB17.3 million and others. Other income and gains increased by 185.6% for the six months ended 30 June 2013 as compared with the same period last year. The increase was mainly due to the increase in interest income and the net foreign exchange gain for the six months ended 30 June 2013 instead of the net foreign exchange loss for the six months ended 30 June 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution costs

During the period ended 30 June 2013, the Group continued motivating its sales team, investing in consumer communication and brand building. Selling and distribution costs for the six months ended 30 June 2013 amounted to RMB667.2 million, representing an increase of 40.4% from the same period last year, which was mainly due to the increase in promotional and advertising expenses, performance-based bonus and office expenses. Selling and distribution costs as a percentage of revenue decreased from 34.9% for the six months ended 30 June 2012 to 32.4% for the comparable period of 2013, resulting from the effective implementation of database marketing activities through Mama100 Membership Program.

Administrative expenses

Administrative expenses for the six months ended 30 June 2013 amounted to RMB78.8 million, increasing by 58.1% as compared with the six months ended 30 June 2012. The increase was in line with the business growth. Administrative expenses as a percentage of revenue increased slightly from 3.7% for the six months ended 30 June 2012 to 3.8% for the six months ended 30 June 2013.

Other expenses

Other expenses for the six months ended 30 June 2013 amounted to RMB24.9 million, primarily consisting of R&D expenses of RMB19.1 million and others. During the period ended 30 June 2013, the Group continued its joint development strategy with European infant formula suppliers to provide Chinese consumers with safe and premium infant formulas. R&D expenses as a percentage of revenue increased from 0.6% for the six months ended 30 June 2012 to 0.9% for the six months ended 30 June 2013.

Fine on the violation of Anti-Monopoly Law

In June 2013, Biostime Guangzhou, a wholly-owned subsidiary of the Company, was under an investigation by the NDRC in relation to an alleged violation of Article 14 of the Anti-Monopoly Law of the PRC (the "PRC AML"). On 6 August 2013, the investigation was concluded and Biostime Guangzhou received an Administrative Punishment Decision (the "Decision") issued by the NDRC. According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of the PRC AML by providing fixed prices for its products in its distribution agreements with its distributors, and therefore shall be subject to a fine in the amount of RMB162.9 million according to Article 46 of the PRC AML. The Group has recorded the fine in the interim condensed consolidated financial statements for the six months ended 30 June 2013. The Group shall continue to improve its internal control system to ensure that its various business decisions comply with the applicable PRC laws and regulations.

Income tax expenses

The effective income tax rate increased to 39.8% for the six months ended 30 June 2013 from 26.5% for the comparable period last year, mainly owing to (i) the impact of the one-off fine imposed by the NDRC of the PRC by approximately 8.2 percentage points, which was subject to income tax under the existing PRC tax rules; (ii) the increased applicable income tax rate of 25.0% for Biostime (Guangzhou) Health Products Limited, which enjoyed a preferential corporate income tax rate of 12.5% in 2012; and (iii) the increase in withholding taxes resulting from the increased distribution of retained profits of the Company's subsidiaries in Mainland China. In line with the increase in the Group's profit before tax, income tax expense increased by 98.5% to RMB196.5 million for the six months ended 30 June 2013, compared with the same period last year.

Profit for the period

The Group recorded profit for the period ended 30 June 2013 of RMB297.5 million, increasing by 8.6% from RMB273.9 million for the period ended 30 June 2012. Excluding the one-off fine of RMB162.9 million imposed by the NDRC of the PRC, profit for the period ended 30 June 2013 amounted to RMB460.4 million, representing an increase by 68.1% as compared with the same period last year. On the same basis, net profit margin increased by 2.2 percentage points to 22.3% for the six months ended 30 June 2013 from 20.1% for the six months ended 30 June 2012. The increase was mainly resulting from the decrease in selling and distribution costs and administrative expenses as percentages of revenue.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2013, the Group had net cash generated from operating activities of RMB265.7 million, consisting of cash generated from operations of RMB572.7 million, partially offset by income tax paid of RMB307.0 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB496.0 million before working capital adjustments and net positive changes in working capital of RMB76.7 million.

Investing activities

For the six months ended 30 June 2013, net cash inflows from investing activities amounted to RMB324.7 million. Taking no consideration of the net inflow from matured time deposits of RMB329.7 million, the net cash outflow for investing activities amounted to RMB5.0 million, mainly consisting of (i) outflow for construction in progress and purchase of property, plant and equipment of RMB42.2 million; and (ii) partially offset by interest received from the matured time deposits of RMB33.7 million, and repayment received from loan receivables of RMB3.5 million.

Financing activities

For the six months ended 30 June 2013, net cash used in financing activities amounted to RMB314.5 million, primarily reflecting (i) the distribution of final and special dividends for the year ended 31 December 2012 of RMB411.7 million; (ii) the purchase of shares held under the Share Award Scheme of RMB33.9 million; and (iii) partially offset by the net proceeds from bank loans of RMB134.6 million.

Working capital cycle

The Group's cash cycle increased from 89 days for the six months ended 30 June 2012 to 95 days for the six months ended 30 June 2013.

The average turnover days of trade and bills receivables for the six months ended 30 June 2013 and 2012 were nil and 1 day, respectively.

The average turnover days of inventories increased from 126 days for the six months ended 30 June 2012 to 167 days for the six months ended 30 June 2013. The increase in the average turnover days of inventories was mainly due to (i) the stricter quality inspection procedures for imported goods performed by the CIQ⁽¹⁾ under AQSIQ⁽²⁾; (ii) the new series of infant formulas purchased, which shall be launched in the second half of 2013. Excluding the new series of infant formulas purchased, the average turnover days of inventories for the six months ended 30 June 2013 was around 157 days; and (iii) the increased inventories stored up to satisfy the increasing market demand. Taking no account of the raw materials in transit, the average turnover days of inventories decreased from 108 days for the six months ended 30 June 2012 to 77 days for the six months ended 30 June 2013.

Notes:

- (1) Entry-Exit Inspection and Quarantine Bureau (出入境檢驗檢疫局)
- (2) General Administration of Quality Supervision, Inspection and Quarantine of the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

The average turnover days of trade and bills payable increased from 38 days for the six months ended 30 June 2012 to 72 days for the six months ended 30 June 2013. The increase was mainly due to the increased trade payables as at the period end, which was still within the credit terms. The average credit term of suppliers was around 50 days.

Inventories

	30 June 2013 RMB'000	31 December 2012 RMB'000
Raw materials	174,307	185,647
Raw materials in transit	417,107	277,425
Work in progress	5,129	2,486
Finished goods	165,462	57,709
Total	762,005	523,267

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

Cash and bank balances

As at 30 June 2013, the Group held cash and cash equivalents and non-pledged time deposits with original maturity of three months or more when acquired totaling RMB2,567.9 million, and was in a net cash position of RMB2,162.7 million after netting off the short-term bank loans of RMB405.2 million.

Interest-bearing bank loans

As at 30 June 2013, the Group's outstanding interest-bearing bank loans amounted to RMB405.2 million, of which all were repayable within one year. The gearing ratio was 10.7%. The gearing ratio is calculated by dividing total borrowings by total assets.

HUMAN RESOURCES

As at 30 June 2013, the Group had approximately 2,600 employees in Mainland China, Hong Kong and France. In order to support the rapid growth, the Group has been steadily increasing the investment in developing and retaining its right talent, offering competitive compensation, various training and education opportunities. Also, since the Company became a public company, the Group has gradually developed and implemented an incentive system to attract and retain talented staff. Up to 30 June 2013, the Group had totally granted 15,782,130 share options under the Share Option Scheme and granted 5,290,508 shares under the Share Award Scheme.

DIVIDENDS

The board (the "Board") of directors (the "Directors") of the Company has resolved to declare an interim dividend of HK\$0.25 per ordinary share and a special dividend of HK\$0.19 per ordinary share, representing approximately 70.0% of the Group's profit available for distribution for the period ended 30 June 2013. The interim and special dividends will be paid on or about 27 September 2013 to the shareholders whose names appear on the register of members of the Company on 6 September 2013.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance. Except for the deviations from code provisions A.2.1 as disclosed below, the Company has complied with the code provisions contained in the CG Code for the six months ended 30 June 2013.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and the Chief Executive 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 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.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that it complies with the CG Code and 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 2013.

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

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the six months ended 30 June 2013.

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

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 CG Code. 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 2013.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 25 November 2010 with written terms of reference in compliance with the CG Code. 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 CG Code. 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 9 May 2013 at The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, 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.

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 2013.

The interim condensed consolidated financial statements for the six months ended 30 June 2013 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 2013, 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 1,412,000 ordinary shares of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at a total consideration of about HK\$41,895,000.

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 2013.

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") of the Company 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.

No share options (the "Share Options") under the Share Option Scheme were granted to any grantees (the "Grantees") during the six months ended 30 June 2013.

Particulars and movements of Share Options under the Share Option Scheme during the six months ended 30 June 2013 by category of Grantees were as follows:

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (Continued)

Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share	Number of Share Options			
			Outstanding as at 1 January 2013	Granted during the six months ended 30 June 2013	Lapsed during the six months ended 30 June 2013	Outstanding as at 30 June 2013
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	760,890	–	(31,672)	729,218
	29/11/2011	HK\$11.52	1,002,448	–	(212,593)	789,855
	01/06/2012	HK\$19.64	676,270	–	(52,400)	623,870
	07/12/2012	HK\$24.70	1,319,724	–	(64,911)	1,254,813
Total			4,059,332	–	(361,576)	3,697,756

All Share Options granted since the adoption of the Share Option Scheme till 30 June 2013 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 2013.

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 number of options granted
Any time after the fourth anniversary of the Listing Date	30% of the total number of options granted
Any time after the fifth anniversary of the Listing Date	40% of the total number 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 2013, 1 Director and 9 employees were no longer eligible for Pre-IPO Share Options due to their failure to meet performance target or retirement, among which the failure to meet performance target of the Director was caused by his re-designation from an executive Director to a non-executive Director and his resignation from his other positions in the Group in 2012, and as a result, a total of 548,852 Pre-IPO Share Options lapsed. Particulars and movements of Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the six months ended 30 June 2013 by category of grantees are set out below:

Category of grantees	Number of Pre-IPO Share Options		
	Outstanding as at 1 January 2013	Lapsed during the six months ended 30 June 2013	Outstanding as at 30 June 2013
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	(404,795)	1,002,797
Others			
Senior management members	2,655,665	—	2,655,665
Other employees	5,787,618	(144,057)	5,643,561
Business partners	100,000	—	100,000
Sub-total	8,543,283	(144,057)	8,399,226
Total	9,950,875	(548,852)	9,402,023

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were exercised or cancelled during the six months ended 30 June 2013.

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 announcements dated 28 November 2011 and 30 March 2012.

On 8 January 2013, the Board resolved to pay RMB31,000,000 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 2013, based on the Company’s instructions, the trustee of the Share Award Scheme has purchased a total of 1,412,000 Shares on the Stock Exchange at a total consideration of about HK\$41,895,000.

On 25 March 2013, the Board resolved to grant 1,239,887 awarded Shares to eligible persons under the Share Award Scheme with vesting date being 25 March 2014.

SHARE AWARD SCHEME (CONTINUED)

Summary of particulars of the shares awarded under the Share Award Scheme (the "Awarded Shares") during the six months ended 30 June 2013 are set out below:

Date of grant	Number of Awarded Shares granted	Approximate percentage of the Company's share capital as at the Adoption Date	Vesting date	Number of Awarded Shares		
				Vested as at 30 June 2013	Forfeited as at 30 June 2013	Outstanding (held by the trustee for the Grantees) as at 30 June 2013
3 July 2012	1,734,739 <i>(note 1)</i>	0.29%	3 July 2013	–	33,731	1,701,008
25 March 2013	1,239,887 <i>(note 2)</i>	0.21%	25 March 2014	–	23,500	1,216,387
Total	2,974,626	0.50%		–	57,231	2,917,395

Note 1: Among these Awarded Shares granted, 55,000 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 29,000 Awarded Shares were granted to Ms. Kong Qingjuan, the Chief Operating Officer and an executive Director.

Note 2: Among these Awarded Shares granted, 30,500 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 18,000 Awarded Shares were granted to Ms. Kong Qingjuan, the Chief Operating Officer and an executive Director.

On 3 July 2013, the 1,701,008 outstanding Awarded Shares which were granted on 3 July 2012 vested according to the Share Award Scheme and the terms of the grant.

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 2013, 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 5)
Luo Fei	Beneficial owner	Long position	621,239 (Note 1)	0.1031%
	Beneficial owner	Long position	182,500 (Note 2)	0.0303%
Kong Qingjuan	Beneficial owner	Long position	381,558 (Note 1)	0.0634%
	Beneficial owner	Long position	93,000 (Note 3)	0.0154%
Ngai Wai Fung	Beneficial owner	Long position	100,000 (Note 4)	0.0166%
Tan Wee Seng	Beneficial owner	Long position	100,000 (Note 4)	0.0166%
Xiao Baichun	Beneficial owner	Long position	100,000 (Note 4)	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, including 97,000 Awarded Shares granted on 30 March 2012, 55,000 Awarded Shares granted on 3 July 2012 and 30,500 Awarded Shares granted on 25 March 2013. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" above.

Note 3: These are the Awarded Shares granted by the Company under the Share Award Scheme, including 46,000 Awarded Shares granted on 30 March 2012, 29,000 Awarded Shares granted on 3 July 2012 and 18,000 Awarded Shares granted on 25 March 2013. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" above.

Note 4: 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 5: As at 30 June 2013, the total number of the issued Shares of the Company was 602,294,000.

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 2013.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2013, 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 2013, the total number of the issued Shares of the Company was 602,294,000.

Note 2: As at 30 June 2013, 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 2013, 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.

MAJOR ADMINISTRATIVE PUNISHMENT FOR A SUBSIDIARY OF THE COMPANY

In June 2013, the National Development and Reform Commission (the “NDRC”) of the People’s Republic of China (“the PRC”) conducted an investigation (the “Investigation”) into the Company’s subsidiary BiosTime, Inc. (Guangzhou) (“Biostime Guangzhou”) in relation to Biostime Guangzhou’s management over the market sales prices at which its distributors and retail sales organizations sold its products.

Biostime Guangzhou took a series of measures to respond to the Investigation and to reward consumers of its products and enhance its business partners’ confidence, including: (i) amending relevant terms in relation to fixed prices and price floors provided in the previous distribution agreements and re-signing new distribution agreements with its distributors; (ii) rewarding consumers with additional 50% of accumulation points (which resulted in 1.5 times of the original accumulation points and that every 10 points will be equivalent to RMB1 in value for redeeming the Group’s products); and (iii) lowering the ex-factory prices and suggested retail prices of its certain infant formulas products.

On 6 August 2013, the NDRC issued an Administrative Punishment Decision (the “Decision”) in relation to the Investigation. According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of the Anti-Monopoly Law of the People’s Republic of China (the “PRC AML”) by providing fixed prices for its products in its distribution agreements with its distributors, and therefore shall be subject to a fine in the amount of RMB162,900,000 according to Article 46 of the PRC AML. Biostime Guangzhou has decided not to make an application for an administrative reconsideration or to initiate administrative litigation and shall continue to improve its internal control system to ensure that its various business decisions comply with the applicable PRC laws and regulations.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 2012 Annual Report of the Company are set out below:

Name of Director	Details of Changes
Luo Fei	<ol style="list-style-type: none">1. Appointed as a director of the Company's directly wholly-owned subsidiary Parenting Power International Holdings Limited (a limited company incorporated in the Cayman Islands on 19 February 2013) ("Parenting Power Holdings") on 19 February 20132. Appointed as a director of the Company's indirectly wholly-owned subsidiary Parenting Power Investment Limited (a business company incorporated in the British Virgin Islands on 5 March 2013 and wholly owned by Parenting Power Holdings) ("Parenting Power Investment") on 5 March 20133. Appointed as a director of the Company's indirectly wholly-owned subsidiary Parenting Power Hong Kong Limited (a limited company incorporated in Hong Kong on 22 March 2013 and wholly owned by Parenting Power Investment) ("Parenting Power Hong Kong") on 22 March 2013
Luo Yun	<ol style="list-style-type: none">1. Appointed as a director of the Company's directly wholly-owned subsidiary Parenting Power Holdings on 19 February 20132. Appointed as a director of the Company's indirectly wholly-owned subsidiary Parenting Power Investment on 5 March 20133. Appointed as a director of the Company's indirectly wholly-owned subsidiary Parenting Power Hong Kong on 22 March 2013
Chen Fufang	<ol style="list-style-type: none">1. Appointed as a director of the Company's directly wholly-owned subsidiary Parenting Power Holdings on 19 February 20132. Appointed as a director of the Company's indirectly wholly-owned subsidiary Parenting Power Investment on 5 March 20133. Appointed as a director of the Company's indirectly wholly-owned subsidiary Parenting Power Hong Kong on 22 March 2013
Tan Wee Seng	Ceased to be an independent director, chairman of the audit committee and chairman of the special committee on going private of 7 Days Group Holdings Limited on 6 July 2013, the shares of which were delisted from the New York Stock Exchange on the same date.

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.

DIVIDENDS

The Board has resolved to declare an interim dividend of HK\$0.25 per Share and a special dividend of HK\$0.19 per Share, representing approximately 70.0% of the Group's profit available for distribution for the period ended 30 June 2013. The interim and special dividends will be paid on or about 27 September 2013 to members whose names appear on the register of members of the Company on 6 September 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 September 2013 to 6 September 2013, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim and special dividends, 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 3 September 2013.





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 25 to 54, which comprise the interim condensed consolidated statement of financial position as at 30 June 2013, the 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 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 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

20 August 2013

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	5	2,061,481	1,362,742
Cost of sales		(691,884)	(469,146)
Gross profit		1,369,597	893,596
Other income and gains	5	61,780	21,633
Selling and distribution costs		(667,220)	(475,382)
Administrative expenses		(78,782)	(49,825)
Other expenses		(24,908)	(16,958)
Fine on the violation of Anti-Monopoly Law	6	(162,900)	–
Finance costs	7	(3,573)	(175)
PROFIT BEFORE TAX	8	493,994	372,889
Income tax expense	9	(196,487)	(98,963)
PROFIT FOR THE PERIOD		297,507	273,926
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		495	4,246
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		298,002	278,172
Profit attributable to owners of the parent		297,507	273,926
Total comprehensive income attributable to owners of the parent		298,002	278,172
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	11	RMB	RMB
Basic		0.50	0.46
Diluted		0.49	0.45

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2013

	Notes	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	90,649	77,074
Prepaid land lease payment	13	19,938	20,147
Intangible assets		3,674	1,151
Loans receivable	18	90,984	110,484
Deposits	14	26,000	12,795
Time deposits	20	994,180	942,062
Deferred tax assets	24	118,895	78,688
Total non-current assets		1,344,320	1,242,401
CURRENT ASSETS			
Inventories	15	762,005	523,267
Trade and bills receivables	16	4,389	372
Prepayments, deposits and other receivables	17	78,971	85,689
Loans receivable	18	19,002	12,597
Derivative financial instrument	19	4,001	–
Cash and cash equivalents	20	1,573,701	1,669,066
Total current assets		2,442,069	2,290,991
CURRENT LIABILITIES			
Trade and bills payables	21	287,364	263,118
Other payables and accruals	22	727,214	443,817
Interest-bearing bank loans	23	405,151	270,526
Tax payable		109,213	155,790
Total current liabilities		1,528,942	1,133,251
NET CURRENT ASSETS		913,127	1,157,740
TOTAL ASSETS LESS CURRENT LIABILITIES		2,257,447	2,400,141
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	53,718	77,489
Net assets		2,203,729	2,322,652
EQUITY			
Equity attributable to owners of the parent			
Issued capital	26	5,161	5,161
Reserves		2,198,568	1,903,534
Proposed dividends		–	413,957
Total equity		2,203,729	2,322,652

Luo Fei
Director

Kong Qingjuan
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2013

	Attributable to owners of the parent											
	Issued capital	Shares held			Capital reserve ⁽²⁾	Statutory reserve ⁽³⁾	Share option reserve	Share award reserve	Exchange fluctuation reserve	Retained profits	Proposed dividends	Total
		premium account	Share Award Scheme	Contributed surplus ⁽¹⁾								
At 1 January 2013	5,161	390,649	(30,505)	26,992	95	167,307	16,716	22,985	(58,920)	1,368,215	413,957	2,322,652
Profit for the period	-	-	-	-	-	-	-	-	-	297,507	-	297,507
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	495	-	-	495
Total comprehensive income for the period	-	-	-	-	-	-	-	-	495	297,507	-	298,002
Equity-settled share option Arrangements (note 27)	-	-	-	-	-	-	5,066	-	-	-	-	5,066
Shares purchased for the Share Award Scheme (note 28)	-	-	(33,895)	-	-	-	-	-	-	-	-	(33,895)
Shares awarded under the Share Award Scheme (note 28)	-	-	-	-	-	-	-	23,604	-	-	-	23,604
Final 2012 dividend declared	-	1,036 [#]	-	-	-	-	-	-	-	-	(189,933)	(188,897)
Special 2012 dividend declared	-	1,221 [#]	-	-	-	-	-	-	-	-	(224,024)	(222,803)
At 30 June 2013 (Unaudited)	5,161	392,906 [*]	(64,400) [*]	26,992 [*]	95 [*]	167,307 [*]	21,782 [*]	46,589 [*]	(58,425) [*]	1,665,722 [*]	-	2,203,729
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 27)	-	-	-	-	-	-	3,865	-	-	-	-	3,865
Shares purchased for the Share Award Scheme (note 28)	-	-	(56,756)	-	-	-	-	-	-	-	-	(56,756)
Shares awarded under the Share Award Scheme (note 28)	-	-	-	-	-	-	-	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

* These reserve accounts comprise the consolidated reserves of RMB2,298,568,000 in the interim condensed consolidated statement of financial position as at 30 June 2013.

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 2013

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 2013

	Note	Six months ended 30 June	
		2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Net cash flows from operating activities		265,678	378,944
Net cash flows from/(used in) investing activities		324,656	(481,088)
Net cash flows used in financing activities		(314,542)	(266,799)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		275,792	(368,943)
Cash and cash equivalents at beginning of period		400,615	1,490,456
Effect of exchange rate changes, net		494	4,279
CASH AND CASH EQUIVALENTS AT END OF PERIOD	20	676,901	1,125,792

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2013 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and IAS 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2012, 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 derivative financial instrument 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 2012.

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	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Government Loans</i>
IFRS 7 Amendments	<i>Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 10, IFRS 11 and IFRS 12 Amendments	<i>Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 1 Amendments	<i>Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
IAS 19 Amendments	<i>Amendments to IAS 19 Employee Benefits</i>
IAS 27 (Revised)	<i>Separate Financial Statements</i>
IAS 28 (Revised)	<i>Investments in Associates and Joint Ventures</i>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
Annual Improvements 2009-2011 Cycle	<i>Amendments to a number of IFRSs issued in May 2012</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 derivative financial instrument during the period.

Derivative financial instrument

Derivative financial instrument embedded in a host contract is accounted for as a separate derivative and recorded at fair value if its economic characteristics and risks is not closely related to those of the host contract and the host contract is not held for trading or designated at fair value through profit or loss. The embedded derivative is measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

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 9	<i>Financial Instruments</i> ²
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	<i>Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised)– Investment Entities</i> ¹
IAS 32 Amendments	<i>Amendments to IAS 32 Presentation – Offsetting Financial Assets and Financial Liabilities</i> ¹
IAS 36 Amendments	<i>Amendments to IAS 36 Impairment of Assets – Amended by Recoverable Amount Disclosures for Non-Financial Assets</i> ¹
IAS 39 Amendments	<i>Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Amended by Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
IFRIC 21	<i>Levies</i> ¹

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

² 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 seven 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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 2013 and 2012, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Six months ended 30 June 2013 (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	228,306	1,682,183	61,397	63,442	26,153	-	2,061,481
Segment results	177,619	1,104,814	35,163	35,190	16,811	-	1,369,597
<i>Reconciliations:</i>							
Interest income							43,928
Other income and unallocated gains							17,852
Corporate and other unallocated expenses							(933,810)
Finance costs							(3,573)
Profit before tax							493,994
Other segment information:							
Depreciation and amortisation	1,098	394	361	77	156	10,930	13,016
Write-down/(back) of inventories to net realisable value	(34)	998	23	(551)	7	-	443
Capital expenditure*	314	-	87	11	67	28,408	28,887

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2012 (Unaudited)	Probioti 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							
<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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

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	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	2,061,481	1,362,742
Other income and gains		
Interest income	43,928	15,784
Foreign exchange gain	17,283	–
Gains from investments in principal guaranteed deposits	–	5,419
Others	569	430
	61,780	21,633

6. FINE ON THE VIOLATION OF ANTI-MONOPOLY LAW

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fine on the violation of Anti-Monopoly Law	162,900	–

As at 30 June 2013, BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, was under an investigation by the National Development and Reform Commission of the People's Republic of China (the "NDRC") in relation to an alleged violation of Article 14 of the Anti-Monopoly Law of the People's Republic of China (the "PRC AML"). On 6 August 2013, the investigation was concluded and Biostime Guangzhou received an Administrative Punishment Decision (the "Decision") issued by the NDRC. According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of the PRC AML by providing fixed prices for its products in its distribution agreements with its distributors, and therefore shall be subject to a fine in the amount of RMB162,900,000 according to Article 46 of the PRC AML. The Group has recorded the fine in the interim condensed consolidated financial statements for the six months ended 30 June 2013.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

7. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans	3,573	175

8. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	691,441	468,060
Depreciation (note 12)	12,648	10,214
Amortisation of intangible assets	158	161
Amortisation of land lease payment (note 13)	209	175
Research and development costs*	19,066	8,765
Loss on disposal of items of property, plant and equipment	–	–
Minimum lease payments under operating leases in respect of buildings	20,575	14,154
Employee benefit expenses:		
Wages and salaries	268,423	148,051
Pension scheme contributions (defined contribution schemes)	35,356	23,669
Staff welfare and other expenses	11,361	14,231
Equity-settled share option expense	5,066	3,865
Equity-settled share award scheme expense	23,604	17,840
	343,810	207,656
Foreign exchange differences, net	(17,283)	6,149*
Write-down of inventories to net realisable value [#]	443	1,086

* 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 2013

9. INCOME TAX

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Charge for the period		
Mainland China	206,908	121,107
Hong Kong	4,217	–
Deferred (note 24)	(14,638)	(22,144)
Total tax charge for the period	196,487	98,963

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

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% of the estimated assessable profits.

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

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 2013 and 2012.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

10. DIVIDENDS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends on ordinary shares declared and paid during the period:		
Final dividend for 2012 – HK\$0.39 (2011: HK\$0.27) per ordinary share	188,897	131,125
Special dividend for 2012 – HK\$0.46 (2011: HK\$0.33) per ordinary share	222,803	160,265
	411,700	291,390
Dividends on ordinary shares declared after the interim reporting date:		
Interim dividend – HK\$0.25 (2012: HK\$0.23) per ordinary share	119,481	112,593
Special dividend – HK\$0.19 (2012: nil) per ordinary share	90,806	–
	210,287	112,593

Note: The 2013 interim and special dividends on ordinary shares of RMB210,287,000 was calculated after the elimination of RMB555,000 for shares held for the Share Award Scheme (note 28).

On 20 August 2013, the board of directors declared an interim dividend of HK\$0.25 per ordinary share and a special dividend of HK\$0.19 per ordinary share. As the interim and special dividends on ordinary shares were declared after the interim reporting date, such dividends were not recognised as liabilities as at 30 June 2013.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

11. 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	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the parent used in the basic earnings per share calculation	297,507	273,926
Number of Shares		
Shares		
Weighted average number of ordinary shares in issue	602,294,000	602,294,000
Weighted average number of shares purchased for the Share Award Scheme	(3,176,569)	(2,948,995)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	599,117,431	599,345,005
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	13,898,917	12,180,396
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	613,016,348	611,525,401

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 of the diluted earnings per share 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.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired property, plant and equipment with an aggregate cost of RMB26,301,000 (six months ended 30 June 2012: RMB20,044,000). During that period, depreciation of RMB12,648,000 (six months ended 30 June 2012: RMB10,214,000) was charged and property, plant and equipment with an aggregate carrying amount of RMB78,000 (six months ended 30 June 2012: RMB54,000) was disposed of by the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

13. PREPAID LAND LEASE PAYMENT

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Carrying amount at 1 January	20,566	–
Addition	–	20,950
Recognised during the period (note 8)	(209)	(384)
Carry amount at period/year end	20,357	20,566
Current portion included in prepayments, deposits and other receivables (note 17)	(419)	(419)
Non-current portion	19,938	20,147

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

14. DEPOSITS

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Deposits paid for the purchase of property, plant and equipment	20,158	4,265
Rental deposits	5,315	5,322
Deposit paid for the purchase of intangible assets	527	3,208
	26,000	12,795

15. INVENTORIES

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Raw materials	174,307	185,647
Raw materials in transit	417,107	277,425
Work in progress	5,129	2,486
Finished goods	165,462	57,709
	762,005	523,267

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

16. TRADE AND BILLS RECEIVABLES

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Trade receivables	4	272
Bills receivable	4,385	100
	4,389	372

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, based on the invoice date, is as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within 1 month	3,802	150
1 to 3 months	585	134
Over 3 months	2	88
	4,389	372

The above aged analysis included bills receivable balance of RMB4,385,000 (31 December 2012: RMB100,000).

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Prepayments	10,455	12,511
Deposits	1,747	842
Other receivables	54,297	61,798
Prepaid expenses	12,053	10,119
Current portion of prepaid land lease payment (note 13)	419	419
	78,971	85,689

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

18. LOANS RECEIVABLE

			30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Current portion of loans receivable			19,002	12,597
Loans receivable due after one year			90,984	110,484
			109,986	123,081
	Effective interest rate	Maturity	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Denominated in United States dollars (the "USD")	3.00%	By instalments before December 2018	29,109	33,942
Denominated in Danish kroner (the "DKK")	DKK CIBOR rate +1%	By instalments before January 2017	80,877	89,139
Total loans receivable			109,986	123,081

Loans receivable represent the loans provided to suppliers for the purpose of financing suppliers' production capacity to fulfill the purchase requirement of the Group. The carrying amounts of the current portion and non-current portion of loans receivable approximate to their fair values.

The loan receivable denominated in USD is convertible at the option of the holder at any time before maturity into equity interest of the unlisted borrower, which may not exceed 49% of the outstanding equity interests of the borrower. The convertible loan is redeemable under certain circumstances before the maturity.

The convertible loan is separated into two components: the debt element and the conversion option element. The Group has classified the debt element and the conversion option element as loan receivable and derivative financial instrument, respectively. The fair value of the conversion option at the acquisition date and 30 June 2013 was RMB4,518,000 and RMB4,001,000, respectively (note 19).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

19. DERIVATIVE FINANCIAL INSTRUMENT

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Conversion option embedded in a loan receivable	4,001	–

The Group has provided a loan with convertible option to a supplier, as further detailed in note 18 to the interim condensed consolidated financial statements. The Group has classified the conversion option element as a derivative financial instrument. The fair value of the conversion option at the acquisition date and 30 June 2013 was RMB4,518,000 and RMB4,001,000, respectively. The Group recorded an unrealised loss of RMB517,000. The binomial option pricing model is used for valuation of the conversion option element of the convertible loan receivable. The fair value was estimated by considering the key assumptions as follows:

	30 June 2013
Volatility	27%
Risk-free rate	1.41%
Risky discount rate	8.04%

20. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Cash and bank balances	676,901	400,615
Time deposits	1,890,980	2,210,513
	2,567,881	2,611,128
Less: Non-pledged time deposits with original maturity of more than one year when acquired	(994,180)	(942,062)
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	1,573,701	1,669,066
Less: Non-pledged time deposits with original maturity of three months or more when acquired	(896,800)	(1,268,451)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	676,901	400,615
Denominated in RMB (note)	2,371,754	2,538,079
Denominated in other currencies	196,127	73,049
	2,567,881	2,611,128

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

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

Note:

The RMB 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. Short-term time deposits are made for varying periods of between three months and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Long-term time deposits are with an original maturity of two years when acquired. 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.

21. TRADE AND BILLS PAYABLES

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Trade payables	279,767	262,170
Bills payables	7,597	948
	287,364	263,118

An aged analysis of the trade and bills payables, based on the invoice date, is as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within 1 month	280,373	244,842
1 to 3 months	3,669	17,847
Over 3 months	3,322	429
	287,364	263,118

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

22. OTHER PAYABLES AND ACCRUALS

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Advances from customers	60,370	25,233
Salaries and welfare payables	137,378	80,099
Accruals	185,033	198,257
Other tax payables	44,462	90,095
Deferred income (note 25)	121,369	33,381
Other payables *	178,602	16,752
	727,214	443,817

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

* The balance as at 30 June 2013 included an accrual for the fine of RMB162,900,000 on the violation of the PRC AML by a wholly owned subsidiary of the Group pursuant to the Decision issued by the NDRC (note 6).

23. INTEREST-BEARING BANK LOANS

	30 June 2013			31 December 2012		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Unsecured bank loans	HIBOR+2.25	On demand	281,686	HIBOR+2.25	On demand	181,332
Unsecured bank loans	2.30	On demand	123,465	2.30	On demand	89,194
			405,151			270,526

As at 30 June 2013, all the Group's bank loans are denominated in HK\$ and USD at aggregate amounts of RMB346,453,000 (31 December 2012: RMB210,814,000) and RMB58,698,000 (31 December 2012: RMB59,712,000), respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

24. 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 2013	324	56,370	13,649	8,345	78,688
Credited to the interim condensed consolidated statement of comprehensive income for the period	147	7,479	10,584	21,997	40,207
At 30 June 2013 (Unaudited)	471	63,849	24,233	30,342	118,895
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	(10)	31,263	7,270	3,768	42,291
At 31 December 2012 (Audited)	324	56,370	13,649	8,345	78,688

Deferred tax liabilities

	Withholding taxes on distributable earnings of subsidiaries in the PRC RMB'000
At 1 January 2013	77,489
Transfer out to tax payable	(49,340)
Charged to the interim condensed consolidated statement of comprehensive income for the period	25,569
At 30 June 2013 (Unaudited)	53,718
At 1 January 2012	45,452
Transfer out to tax payable	(27,281)
Charged to the interim condensed consolidated statement of comprehensive income for the period	59,318
At 31 December 2012 (Audited)	77,489

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. DEFERRED INCOME

	Six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Customer loyalty program		
At 1 January	33,381	18,309
Addition	202,957	116,394
Recognised as sales revenue during the period	(114,969)	(42,934)
At 30 June	121,369	91,769

26. SHARE CAPITAL

	30 June 2013 (Unaudited)	31 December 2012 (Audited)
Authorised: 10,000,000,000 (31 December 2012: 10,000,000,000) ordinary shares of HK\$0.01 each	HK\$100,000,000	HK\$100,000,000
Issued and fully paid: 602,294,000 (31 December 2012: 602,294,000) ordinary shares of HK\$0.01 each	HK\$6,022,940	HK\$6,022,940
Equivalent to	RMB5,161,000	RMB5,161,000

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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27. 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:

	Six months ended 30 June			
	2013		2012	
	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	2.53	9,951	2.53	10,246
Forfeited during the period	2.53	(549)	2.53	(137)
At 30 June	2.53	9,402	2.53	10,109

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme at 30 June 2013 are as follows:

Number of options '000	Exercise price HK\$ per share	Exercise period
2,821	2.53	17-12-13 to 17-12-16
2,821	2.53	17-12-14 to 17-12-16
3,760	2.53	17-12-15 to 17-12-16
9,402		

The Group recognised a share option expense related to share options under the Pre-IPO Share Option Scheme of RMB1,568,000 during the six months ended 30 June 2013 (six months ended 30 June 2012: RMB2,317,000).

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 9,402,000 additional ordinary shares of the Company and additional share capital of HK\$94,000 (RMB75,000) and share premium of HK\$23,693,000 (RMB18,873,000) (before issue expenses).

At the date of approval of these interim condensed consolidated financial statements, the Company had 9,402,023 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.6% of the Company’s shares in issue as at that date.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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27. 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			
	2013		2012	
	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	17.95	4,059	13.00	2,441
Granted during the period	-	-	19.64	768
Forfeited during the period	15.40	(362)	12.66	(200)
At 30 June	18.16	3,697	14.72	3,009

The exercise prices and exercise periods of the share options outstanding under the Share Option Scheme as at 30 June 2013 are as follows:

Number of options '000	Exercise price HK\$ per share	Exercise period
219	15.312	17-12-13 to 17-12-16
237	11.52	17-12-13 to 17-12-16
90	12.12	17-12-13 to 17-12-16
187	19.64	17-12-13 to 17-12-16
376	24.70	17-12-13 to 17-12-16
219	15.312	17-12-14 to 17-12-16
237	11.52	17-12-14 to 17-12-16
90	12.12	17-12-14 to 17-12-16
187	19.64	17-12-14 to 17-12-16
376	24.70	17-12-14 to 17-12-16
291	15.312	17-12-15 to 17-12-16
316	11.52	17-12-15 to 17-12-16
120	12.12	17-12-15 to 17-12-16
250	19.64	17-12-15 to 17-12-16
502	24.70	17-12-15 to 17-12-16
3,697		

27. SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

The Group recognised a share option expense related to share options under the Share Option Scheme of RMB3,498,000 during the six months ended 30 June 2013 (six months ended 30 June 2012: RMB1,548,000).

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 3,697,000 additional ordinary shares of the Company and additional share capital of HK\$37,000 (RMB29,000) and share premium of HK\$36,129,000 (RMB28,779,000) (before issue expenses).

At the date of approval of these interim condensed consolidated financial statements, the Company had 3,662,449 share options outstanding under the Share Option Scheme, which represented approximately 0.6% of the Company's shares in issue as at that date.

28. 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 recognise 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 Share Award Scheme is managed by an independent trustee appointed by the Group (The "Trustee"). The vesting period shall, in any event, be no longer than ten years.

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28. SHARE AWARD SCHEME (CONTINUED)

Movements in the number of shares held for the Share Award Scheme and awarded shares for the six months ended 30 June 2013 and 2012 are as follows:

	Number of shares held for the Share Award Scheme	Number of awarded shares
At 1 January 2012	–	–
Purchase for awards	4,150,000	–
Granted	–	2,315,882
Forfeited	–	(31,506)
Vested and exercised	–	–
At 30 June 2012	4,150,000	2,284,376
At 1 January 2013	1,873,133	1,713,019
Purchase for awards	1,412,000	–
Granted	–	1,239,887
Forfeited	–	(35,511)
Vested and exercised	–	–
At 30 June 2013	3,285,133	2,917,395
Exercisable on 3 July 2013		1,701,008
Exercisable on 25 March 2014		1,216,387

During the six months ended 30 June 2013, 48,500 awarded shares (during the six months ended 30 June 2012: 143,000) was granted to the executive directors.

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares.

The weighted average fair value of awarded shares granted during the six months ended 30 June 2013 was HK\$38.75 per share (during the six months ended 30 June 2012: HK\$19.22).

During the six months ended 30 June 2013, the Trustee purchase shares of the Company at a total cost of approximately HK\$41,895,000 (equivalent to RMB33,895,000) (during the six months ended 30 June 2012: RMB56,756,000).

The Group recognised a share award expense of RMB23,604,000 during the six months ended 30 June 2013 (six months ended 30 June 2012: RMB17,840,000).

On 3 July 2013, the 1,701,008 outstanding awarded shares which were granted on 3 July 2012 vested according to the Share Award Scheme and the terms of the grant.

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29. 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 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within one year	30,598	52,020
In the second to fifth years, inclusive	33,672	48,084
After five years	5,917	7
	70,187	100,111

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the period:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	144,913	84,866
Intangible assets	1,826	1,826
	146,739	86,692
Authorised, but not provided for:		
Property, plant and equipment	109,206	–
	255,945	86,692

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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31. RELATED PARTY BALANCES AND TRANSACTIONS

The Group had the following material transactions with related party during the period:

(a) Related party transactions

	Note	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Purchases from a company under common control of directors	(i)	4,476	–

Note:

- (i) The purchases were conducted in accordance with mutually agreed terms. The related party transactions constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Outstanding balances with related party

At the end of the period, the balance arising from the above related party transactions amounted to RMB1,061,000 (2012: Nil).

(c) Compensation of key management personnel of the Group

	Six months ended 30 June 2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Fees	575	675
Short-term employees benefits	37,756	16,896
Pension scheme contributions	436	428
Equity-settled share option expense	1,163	1,114
Equity-settled share award scheme expense	3,889	4,228
Total compensation paid to key management personnel	43,819	23,341

32. EVENT AFTER THE REPORTING PERIOD

- (1) After 30 June 2013, the directors declared an interim dividend and a special dividend on ordinary shares. Further details are disclosed in note 10.
- (2) The Company entered into the Framework Agreement, the Manufacturing Agreement and the Bond Subscription Agreement with Isigny Sainte Mère ("ISM") on 1 July 2013, 1 July 2013 and 30 July 2013 respectively. In accordance with these agreements, a directly wholly-owned subsidiary of the Company, subscribed for and ISM issued subscription shares, representing 20% of the total issued share capital of ISM as enlarged by the issuance of the subscription shares at an aggregate subscription price of EUR2,523,000 (approximately RMB20,358,000) on 2 July 2013. Upon satisfaction of certain conditions precedent as specified in these agreements, ISM will issue and the Company will subscribe for, 17,477,000 bonds, with a nominal value of EUR1 (approximately RMB8.1904) per bond, in three separate tranches, at the subscription price equal to the nominal value of the bonds. The funds will be used for the construction by ISM of an infant formula production and packaging industrial facility, in order to secure the supply of additional manufacturing capacity for the Group.

33. 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 20 August 2013.



BIOSTIME 合生元

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