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)

Annual Report 2011
二零一一年年報

BIOSTIME 合生元

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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
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Tianhe District, Guangzhou
Guangdong Province 510623
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

COMPLIANCE ADVISOR

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
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Hong Kong

LEGAL ADVISOR

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

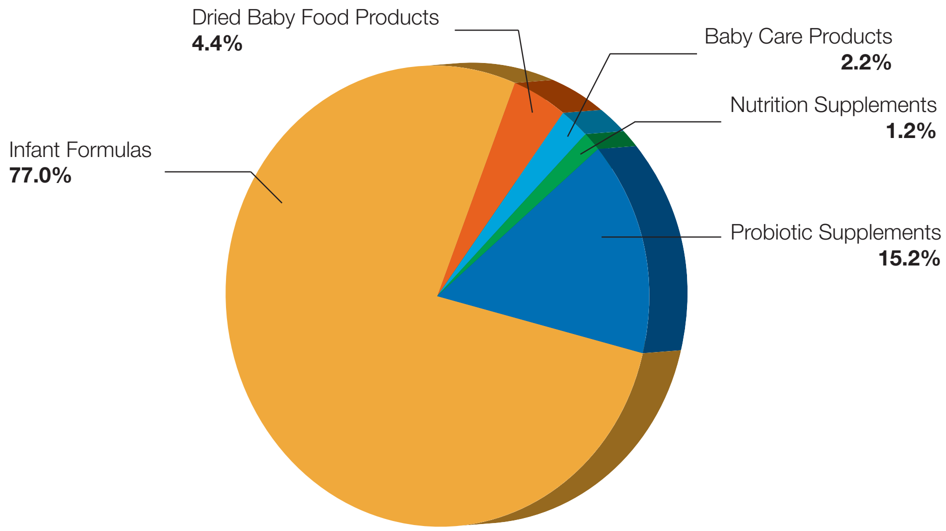
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

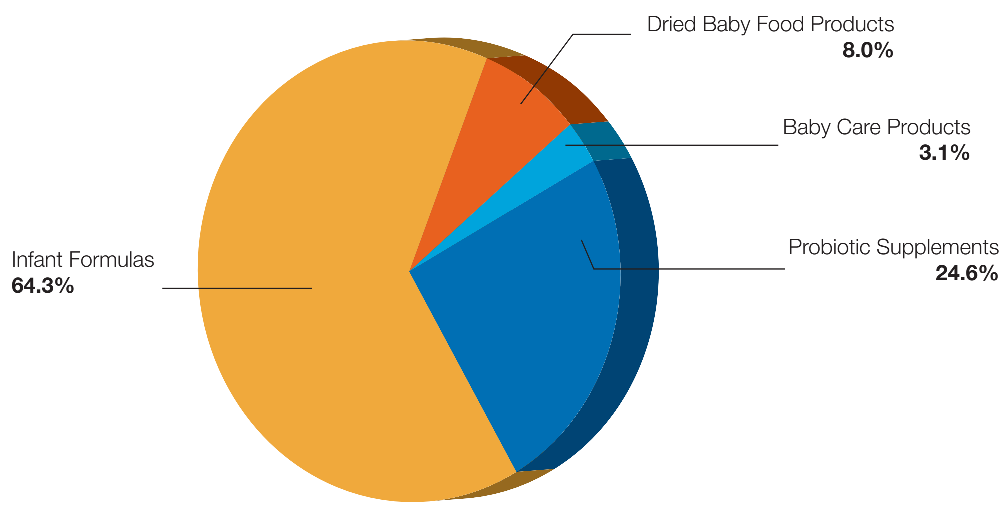
	Year ended 31 December		
	2011 **RMB'000**	2010 RMB'000	% of change
Revenue	**2,189,034**	1,233,560	77.5%
Gross profit	**1,456,127**	877,173	66.0%
Profit for the year	**527,351**	265,683	98.5%
Earnings per share			
— Basic	**RMB0.88**	RMB0.58	51.7%
— Diluted	**RMB0.86**	RMB0.58	48.3%

REVENUE BY PRODUCT SEGMENT

Year ended 31 December 2011



Year ended 31 December 2010



Dear shareholders,

On behalf of Biostime International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am glad to present our Annual Report for the year ended 31 December 2011 (the "Annual Report"), which corresponds to the second year since our initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 December 2010 (the "Listing Date").

BUSINESS REVIEW

As a premium provider of high-end pediatric nutritional and baby care products in China, the Group has been active in the development, marketing and sales of premium products for babies in China which are increasingly popular among mother consumers. Thanks to the booming baby products market in China supported by solid demand from Chinese mothers for various baby products, the Group recorded a consistent and rapid growth of its revenue at a CAGR of 94.7% from 2008 to 2010. In 2011, the Group continued to keep this momentum and delivered another year of notably high revenue and net profit, generating a total revenue of RMB2,189.0 million with net profit of RMB527.4 million, increasing by 77.5% and 98.5%, respectively as compared with 2010.

During the year 2011, the sales revenue of infant formulas business sustained a strong growth of 112.3%, contributing to 77.0% of the Group's total revenue. According to China's Infant Formulas Market Report For The First Half of 2011 prepared by *The Nielsen Company*, within the supreme-tier segment[1] of China's infant formulas industry, Biostime was the first player by sales with the largest market share of approximately 44.0% in the first half of 2011, while within the high-tier segment[2] the Group's market share accounted for 7.4% in the first half of 2011, ranking at the sixth place. Leveraging its established market position, the Group believes it will continue to sustain strong growth in both the supreme-tier and high-tier infant formulas segments.

In September 2011, the Group entered into its nutrition supplements category by introducing to the Chinese market two new series of products, milk calcium chewable tablets and DHA chews/soft capsules for children and mothers. These new products have received an immediate positive feedback from the market, by achieving RMB27.5 million sales revenue from September to December 2011 and accounting for 1.2% of the Group's total revenue. This new segment has further helped to diversify the Group's product portfolio and extended the consumer lifecycle.

To further enhance its brand recognition, the Group consistently invested in advertising its quality products on the internet, magazines and 31 TV channels including provincial and China Central Television ("CCTV") channels in 2011. The Group also launched a series of market education events in 2011 through professional parenting magazines. It also leveraged emerging media channels to increase brand awareness.

Mama100 Membership Platform continued to play an important role in the Group's achievements. By the end of 2011, the number of Mama100 active members and member retail outlets the Group covered increased to 825,230 and 10,240 respectively, up 77.3% and 79.5% as compared with 2010, and the sales generated by Mama100 active members contributed to about 78.0% of the Group's total revenue. Mama100 Membership Platform will continue to enhance cross-selling and support a series of database marketing activities through real-time distribution management system and point accumulation system, enabling the Group to achieve higher sales and promotion efficiency.

To facilitate the expansion of sales and distribution channels, the Group increased the number of its sales offices in Mainland China from 62 to 87 and kept providing extensive training to its sales team in order to support the expansion of its business all across China. By the end of the year 2011, the number of VIP specialty stores that the Group covered had grown up to 6,727 by 82.5%, while that of Mama100 Member's Zones in pharmacies up to 545 by 81.1% and that of supermarkets up to 2,968 by 73.0%, as compared with 2010. Despite the rapid expansion of the sales channels and retail outlets, through a sophisticated real-time distribution management system, the Group has maintained close monitoring of the inventories and sales of its products at the distributors' level to control retail prices, avoid channel conflict and stuffing, enabling the Group to maintain sustainable business growth.

Notes:

(1) Refers to infant formulas with retail prices over RMB300 per can of 900g

(2) Refers to infant formulas with retail prices between RMB200 and RMB300 per can of 900g

BUSINESS REVIEW (Continued)

In 2011, the Group deepened the collaboration with its existing infant formulas supplier in the field of quality control and supply. Meanwhile, the Group jointly developed and conducted product trials with other European infant formulas manufacturers to consolidate its supply capacity and fulfill an increasing market demand. Commencing in December 2011, a new infant formulas supplier started producing infant formulas for the Group. This additional supply source will enable the Group to ensure a sustainable, stable and qualitative supply of its infant formulas powders.

While developing its procurement capacity and diversifying infant formulas suppliers, the Group remained to focus on maintaining the highest quality standards by only using full-formulation spray drying technique and placing quality safety of its products in first priority by multilayer quality control and assurance. All the imported finished products and key raw ingredients sourced by the Group must pass through four stringent control levels: quality control by suppliers, quality check by foreign authorities, inspections by PRC authorities and quality control conducted by the Group. In 2011, the Group also set up a new Global Quality Department, reinforcing the Group's ability to conduct stringent quality control and assurance for all its products. The Group also enhanced its R&D capabilities by collaborating with third-party research organizations to conduct joint research and clinical studies.

Talented people are critical to the Group's continuous growth. In order to support this rapid growth, the Group has been steadily increasing the investment (up 258.9% year-on-year) towards its employees, offering various training and educational opportunities. Also since the Listing Date, the Group has gradually developed and implemented an incentive system to attract and retain talented people. In 2011, on top of the existing Pre-IPO Share Option Scheme and the Share Option Scheme, the Group adopted a share award scheme (the "Share Award Scheme") on 28 November 2011.

In conclusion, the Board believes the Group's ability to drive and sustain its growth is attributed to its unique business model combined with a series of key growth drivers:

- A strong brand, promoting the success of high-quality products and market development;
- A strengthened and sophisticated Mama100 Membership Program with innovative database marketing strategies;
- An effective multi-sales channel and real-time distribution management system;
- High quality products and a consumer-oriented product development;
- A stringent quality assurance and control program; and
- A continuous organization development with sales distribution expansion.




Marketing activities of the Group

PROSPECTS

Looking forward into 2012, the year of Dragon, the Group expects an upward trend in the birthrate of China and is therefore confident to further capture tremendous opportunities in China's fast growing market of premium pediatric nutrition and baby care products.

The Group will further strengthen its brand recognition among consumers and its advertising expenses are expected to increase. Besides keeping a large advertising coverage through 31 provincial TV channels and CCTV, the Group will also cooperate with a renowned satellite TV channel to develop a parenting and baby-nursing program, providing mothers with comprehensive solutions in nurturing their babies. On the other hand, in order to answer the rising needs for information of the new generation of parents, the Group will increase its advertising investment on internet media and enhance its mobile application platform.

The Group will continue to increase penetration into tier-3 cities by consolidating distribution channels which consists of baby specialty stores, supermarkets and pharmacies. To further develop its distribution channels, the Group aims to cover 8,500 VIP baby specialty stores, 1,000 Mama100 Member's Zones in pharmacies, and 4,000 supermarkets by the end of 2012. The Group intends to develop new Mama100 members while maintaining existing high-end membership base, targeting to own about 1.5 million Mama100 active members in three years.

The Group continues to focus on the stability and quality of its existing upstream supply, especially for its largest product category, infant formulas. In 2012, the Group will continue to carry on trial-runs and negotiation with other upstream manufacturers for potential cooperation to ensure long-term capacity of its infant formulas series.

In February 2012, the Group opened a new laboratory facility in France, dedicated to the quality control of its infant formulas powders produced in Europe. In the future, the Group will expand the scope of this laboratory to the quality control of other nutrition and baby care products. At the same time, the Group will conduct joint research programs with leading dairy research organizations in Europe.

To fulfill the diversified needs of high-end consumers, the Group will look for opportunities to diversify the portfolio of its quality pediatric nutritional and baby care products, therefore extending consumer lifecycle. The Group will launch new initiatives to target children aged 3–7 years in 2012.

CHALLENGES

The global inflation will probably cause rising costs of raw materials, which imposes a challenge on the Group. The Group is exposed to certain foreign exchange impacts because the majority of its products and raw materials are imported from Europe and the USA. The Group will further strengthen its supply chain management, increase operation efficiency and leverage economies of scale in order to minimize the fluctuation and maintain profitability.

Alongside with the consumption upgrade in China's consumer market, we expect the entry of new competitors in the high-end pediatric nutritional and baby care market. The Group still believes that its existing high-end brand equity, stringent quality control of its products, as well as its unique business model, especially the database marketing strategy, are its core competence and will thus help maintain our competitive edge.

DIVIDENDS

After taking full consideration of the Group's financial position, net cash flows and capital expenditures, the Board of Directors is glad to recommend the payment of a final dividend of HK$0.27 per ordinary share and a special dividend of HK$0.33 per ordinary share for the year ended 31 December 2011. Taking into account the interim dividend of HK$0.16 per ordinary share in respect of the period ended 30 June 2011 paid in September 2011, the annual dividend for the year ended 31 December 2011 will amount to HK$0.76 per ordinary share, accounting for approximately 70.0% of profit for the year ended 31 December 2011.

Subjected to the approval of shareholders at the forthcoming annual general meeting to be held on 30 April 2012, the final dividend and special dividend will be paid on or about 15 May 2012 to the shareholders whose names appear on the register of members of the Company on 9 May 2012.

CONTROLLING SHAREHOLDERS' UNDERTAKINGS

The controlling shareholders of the Company have undertaken to the Company that they shall not, in the period commencing from 17 December 2010 to 16 December 2013, dispose of shares of the Company held by Biostime Pharmaceuticals (China) Limited.

SOCIAL RESPONSIBILITY

In 2011, the Group cooperated with the National Center for Women and Children's Health under Chinese Center for Disease Control and Prevention to establish "Biostime Mother and Infant Nutrition and Health Research Fund", in order to support the research on healthy development for women and infants, disease prevention and control. The Group promises to provide not less than RMB1 million for the Fund every year for 3 consecutive years.

The Group always prioritizes its responsibility to society and thus established Biostime China Foundation for Mother and Child (the "Foundation") in 2007, in cooperation with the Chinese Red Cross Foundation. The Group donates RMB0.1 to the Foundation for every unit sold. For the year 2011, RMB1.6 million was raised to the Foundation, which has helped 89 children who suffered from serious illnesses since its establishment.

ACKNOWLEDGEMENTS

2011 was a year of opportunity and the Group made every effort possible to outperform in the market. I am confident that 2012, the year of Dragon, will be another excellent year for the Group, enhanced by the strong dedication of its employees. It is my honor to work with such outstanding people and I would like to thank them for all their remarkable contributions to the Group. I would also like to take this opportunity to express my great thanks to all our shareholders, Mama100 members, our retailers, distributors and suppliers for their continuous support to the growth of our business.

Luo Fei
Chairman

Hong Kong, 20 March 2012

SUMMARY OF 2011 RESULTS

The table below sets forth the Group's selected information from the consolidated statements of comprehensive income for the years indicated:

	Year ended 31 December		
	2011 **RMB'000**	2010 RMB'000	**% of change**
Revenue	**2,189,034**	1,233,560	**77.5%**
Gross profit	**1,456,127**	877,173	**66.0%**
Selling and distribution costs	**708,604**	449,453	**57.7%**
Administrative expenses	**82,041**	87,640	**(6.4%)**
Profit before tax	**713,907**	334,063	**113.7%**
Profit for the year	**527,351**	265,683	**98.5%**
Operating profit for the year*	**459,151**	265,773	**72.8%**

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

The table below sets forth the Group's selected information from the consolidated statements of financial position as of the dates indicated:

	As of 31 December		
	2011 **RMB'000**	2010 RMB'000	**% of change**
Non-current assets	**287,701**	39,857	**621.8%**
Current assets	**2,150,365**	1,862,142	**15.5%**
Current liabilities	**415,054**	236,347	**75.6%**
Net current assets	**1,735,311**	1,625,795	**6.7%**
Non-current liabilities	**45,452**	5,760	**689.1%**
Net assets	**1,977,560**	1,659,892	**19.1%**

The table below sets forth the Group's selected information from the consolidated statements of cash flows for the years indicated:

	Year ended 31 December		
	2011 **RMB'000**	2010 RMB'000	**% of change**
Cash and cash equivalents at beginning of year	**1,728,211**	133,795	**1,191.7%**
Net cash flows from operating activities	**516,212**	381,012	**35.5%**
Net cash flows used in investing activities	**(529,228)**	(9,393)	**5,534.3%**
Net cash flows from/(used in) financing activities	**(168,846)**	1,230,948	**(113.7%)**
Effect of foreign exchange rate changes, net	**(55,893)**	(8,151)	**585.7%**
Cash and cash equivalents at end of year*	**1,490,456**	1,728,211	**(13.8%)**

* As at 31 December 2011, cash and bank balances and time deposits amounted to RMB1,974.1 million, including cash and bank balances of RMB1,490.5 million and non-pledged time deposits of RMB483.6 million.

RESULTS OF OPERATIONS

Revenue

Revenue increased from RMB1,233.6 million in the year ended 31 December 2010 to RMB2,189.0 million in the year ended 31 December 2011, representing an increase of 77.5%. The revenue growth was led by the infant formulas segment which grew by 112.3% and now accounted for 77.0% of the Group's total revenue.

The following table sets forth the Group's revenues by product segment for the years indicated:

	Year ended 31 December			
	2011		2010	
	RMB'000	**% of total**	RMB'000	% of total
Probiotic supplements	**331,962**	**15.2%**	303,749	24.6%
Infant formulas	**1,684,655**	**77.0%**	793,565	64.3%
Dried baby food products	**97,126**	**4.4%**	97,779	8.0%
Baby care products	**47,845**	**2.2%**	38,467	3.1%
Nutrition supplements	**27,446**	**1.2%**	—	—
Total	**2,189,034**	**100.0%**	1,233,560	100.0%

Probiotic supplements

Revenue of probiotic supplements kept a steady growth, and increased by 9.3% from RMB303.7 million in the year ended 31 December 2010 to RMB332.0 million in the year ended 31 December 2011, accounting for 15.2% of the Group's total revenue in 2011.

Infant formulas

Revenue of infant formulas increased significantly by 112.3% from RMB793.6 million in the year ended 31 December 2010 to RMB1,684.7 million in the year ended 31 December 2011, accounting for 77.0% of the Group's total revenue in 2011. The increase in revenue reflected the Group's increased market share in China's infant formulas industry, expansion of sales network, and greater market recognition. Thanks to the newly introduced Biostime Golden Care Infant Formulas launched in May 2010, the revenue of high-tier infant formulas, including Biostime Golden Care Infant Formulas and Biostime Premium Infant Formulas, increased by 129.7% in 2011 compared with 2010. The revenue of supreme-tier infant formulas, including Biostime Supreme Infant Formulas and Biostime Supreme Care Infant Formulas, increased by 99.3% in 2011 compared with 2010.

Dried baby food products

Owing to the new regulations in the PRC regarding the baby cereal series products which came into effect in April 2011, and the new labeling regulations in the PRC regarding the organic series products, the Group took about six months to re-develop the formula and re-design the packages, resulting in the shortage of dried baby food products in some regions. The Group had finished the re-development and re-package in January 2012, and the sales of dried baby food products had returned to normal. Revenue of dried baby food products decreased slightly by 0.7% from RMB97.8 million in the year ended 31 December 2010 to RMB97.1 million in the year ended 31 December 2011.

RESULTS OF OPERATIONS (Continued)

Revenue (Continued)

Baby care products

Revenue of baby care products under the BMcare™ brand increased by 24.4% from RMB38.5 million in the year ended 31 December 2010 to RMB47.8 million in the year ended 31 December 2011, accounting for 2.2% of the Group's total revenue in 2011. The increase was mainly due to the Group's continuous promoting of its BMcare™ brand.

Nutrition supplements

The Group launched nutrition supplements in September 2011 and generated revenue of RMB27.4 million in the year ended 31 December 2011, accounting for 1.2% of the Group's total revenue.

Gross profit and gross profit margin

Gross profit increased by 66.0% from RMB877.2 million in the year ended 31 December 2010 to RMB1,456.1 million in the year ended 31 December 2011, which was in line with the increase in revenue. Gross profit margin decreased from 71.1% in the year ended 31 December 2010 to 66.5% in the year ended 31 December 2011, mainly due to: (i) product mix impact, resulting from the higher revenue contribution from high-tier infant formulas, which has a lower gross profit margin than that of supreme-tier infant formulas, and the increased portion of revenue derived from infant formulas, which has a lower gross profit margin than that of probiotic supplements; (ii) the higher purchase prices of infant formulas charged by the supplier and the increased labour costs of production; (iii) the increased cost of redeemed goods resulting from the higher redemption rate of Mama100 membership points. The redemption rate of Mama100 membership points increased from 76.1% in 2010 to 86.5% in 2011.

Other income and gains

Other income and gains consist of bank interest income, foreign exchange gain and others. Other income and gains increased from RMB4.4 million in the year ended 31 December 2010 to RMB71.8 million in the year ended 31 December 2011, primarily due to the increase of foreign exchange gain derived from the appreciation of the Renminbi against the Hong Kong dollar relating to the Company's bank deposits denominated in Renminbi.

Foreign exchange gain amounted to RMB52.8 million in the year ended 31 December 2011, while a foreign exchange loss of RMB1.3 million was recorded in the year ended 31 December 2010. The Company received proceeds from listing of the Shares of the Company on the Main Board of the Stock Exchange on 17 December 2010 in Hong Kong dollar in December 2010, and then converted the proceeds into Renminbi in January 2011. At the end of the reporting period, the deposits denominated in Renminbi were translated to Hong Kong dollar, the functional currency of the Company, using the closing exchange rate, and the exchange differences shall be recognized in profit or loss in the period in which they arise.

The bank interest income increased by 686.4% from RMB2.2 million in the year ended 31 December 2010 to RMB17.3 million in the year ended 31 December 2011. The Group placed more time deposits in the year ended 31 December 2011 to earn higher return on its idle cash.

RESULTS OF OPERATIONS (Continued)

Selling and distribution costs

The selling and distribution costs as a percentage of total revenue decreased from 36.4% in 2010 to 32.4% in 2011. The decrease in selling and distribution costs as a percentage of total revenue was primarily due to the effective implementation of database marketing activities through Mama100 Membership Program and sophisticated value chain management, which enable us to effectively lower the new member acquisition cost and enhance members' loyalty. Selling and distribution costs increased by 57.7% from RMB449.5 million in the year ended 31 December 2010 to RMB708.6 million in the year ended 31 December 2011. The increase was primarily due to increase in promotional and advertising expenses, performance-based bonus and office expenses, which were in line with the Group's business growth and increase in sales of products.

Administrative expenses

Attributing to the Group's effective operation management and enhanced economies of scale, administrative expenses as a percentage of revenue decreased from 7.1% in the year ended 31 December 2010 to 3.7% in the year ended 31 December 2011. Administrative expenses decreased by 6.4% from RMB87.6 million in the year ended 31 December 2010 to RMB82.0 million in the year ended 31 December 2011. The decrease was primarily due to (i) the decrease in listing expenses, which was on a one-off basis in 2010 while partially offset by (ii) the increase in office, rental and travelling expenses.

Other expenses

Other expenses increased by 124.0% from RMB10.4 million in the year ended 31 December 2010 to RMB23.3 million in the year ended 31 December 2011, resulting from the increased joint development expenses and trial-run costs with potential infant formulas suppliers in Europe.

Income tax expenses

The effective income tax rate increased from 20.5% in the year ended 31 December 2010 to 26.1% in the year ended 31 December 2011. The increase was mainly due to: (i) the increased deferred tax liabilities for the withholding taxes on distributable earnings of subsidiaries located in the Mainland China; and (ii) the increased portion of profit before tax contributed by BiosTime, Inc. (Guangzhou), which was subject to corporate income tax rate of 25.0%, and the decreased portion of profit before tax contributed by Biostime (Guangzhou) Health Products Limited, which enjoyed a preferential corporate income tax rate of 12.0% in 2011. In line with the increase in the Group's profit before tax, income tax expense increased by 172.8% from RMB68.4 million in the year ended 31 December 2010 to RMB186.6 million in the year ended 31 December 2011.

Operating profit for the year

Operating profit for the year increased by 72.8% from RMB265.8 million in the year ended 31 December 2010 to RMB459.2 million in the year ended 31 December 2011. Operating profit for the year as a percentage of revenue decreased slightly from 21.5% in 2010 to 21.0% in 2011. The decrease in operating profit for the year as a percentage of revenue was mainly due to the decreased gross profit margin and increased effective income tax rate, while partially offset by the decrease in selling and distribution costs and administrative expenses as a percentage of revenue, resulting from the effective implementation of database marketing and operation management.

LIQUIDITY AND CAPITAL RESOURCES

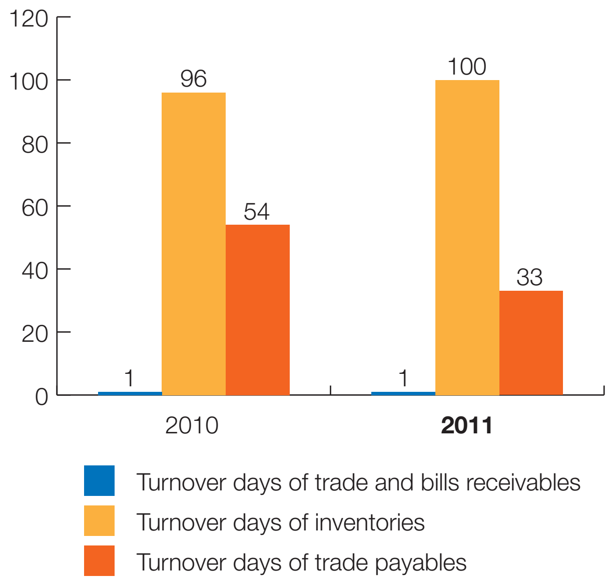
Cash flows from operating activities

In the year ended 31 December 2011, the Group had net cash flows from operating activities of RMB516.2 million, consisting of cash generated from operations of RMB639.2 million, partially offset by corporate income tax paid of RMB123.0 million. The Group's cash generated from operations consisted of cash flows from operating activities of RMB716.4 million, before working capital adjustments and net negative changes in working capital of RMB77.2 million.

Cash flows used in investing activities

In the year ended 31 December 2011, the Group's net cash flows used in investing activities amounted to RMB529.2 million, after taking consideration of the time deposits of RMB483.6 million. The Group's net cash outflows for investing activities mainly consisted of: (i) purchase of property, plant and equipment and intangible assets of RMB39.2 million, which primarily related to acquisition of computers, POS machines, vehicles and computer software for business use; (ii) purchase of a parcel of land of RMB21.0 million; (iii) increase in balance of time deposits of RMB483.6 million, while partially offset by (iv) interest received of RMB14.3 million.

Working capital cycle



The average turnover days of trade and bills receivables maintained at 1 day in the years ended 31 December 2011 and 2010.

The average turnover days of inventories increased from 96 days in 2010 to 100 days in 2011, primarily because we held more raw materials and finished goods to accommodate the Group's anticipated sales growth, particularly for the infant formulas products.

The average turnover days of trade payables decreased from 54 days in 2010 to 33 days in 2011, which was mainly due to the increased purchase volume of infant formulas which has a shorter credit term than other products.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

The use of the net proceeds from the global offering up to 31 December 2011 was as follows:

	HK$ million
Enhancing and reinforcing the brand recognition and brand image	179.6
Expanding business by cooperating with upstream suppliers	11.6
Expanding and developing the sales distribution network and retail channels	62.1
Investing in research and development and expanding production infrastructure and warehouses	25.3
Upgrading the information technology system	11.3
Working capital and other general corporate purposes	35.3
	325.2

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

The Directors intend to apply the remaining net proceeds in the manner as set out in the section headed "Use of Proceeds" in the prospectus of the Company dated 3 December 2010 (the "Prospectus").

The board (the "Board") of directors (the "Directors") of the Company is pleased to present this Corporate Governance Report in the Annual Report.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Throughout the year ended 31 December 2011, the Company has complied with the code provisions as set out in the CG Code, except for the deviation from code provision A.2.1 as disclosed below.

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

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

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

For the purpose of complying with the new code of corporate governance practice as set out in the Appendix 14 of the Listing Rules, which shall take effect from 1 April 2012, the Board has adopted a revised CG Code (the "New CG Code") on 20 March 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2011.

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

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.

THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises nine members, consisting of three executive Directors, three non-executive Directors and three independent non-executive Directors. The Board has also established three Board committees, namely, the Nomination Committee, the Audit Committee and the Remuneration Committee. Directors' biographical details are set out in the section headed "Biography of Directors and Senior Management" on pages 28 to 36 of this Annual Report. Below is the list of Directors:

Executive Directors:

Mr. Luo Fei *(Chairman, Chief Executive Officer, Chairman of the Nomination Committee and Member of the Remuneration Committee)*
Dr. Zhang Wenhui *(Chief Technology Officer and Head of the Quality Assurance Department)*
Ms. Kong Qingjuan *(Chief Operating Officer)*

Non-executive Directors:

Mr. Wu Xiong
Mr. Luo Yun *(Member of the Audit Committee)*
Mr. Chen Fufang

Independent non-executive Directors:

Dr. Ngai Wai Fung *(Chairman of the Audit Committee and Member of the Remuneration Committee and the Nomination Committee)*
Mr. Tan Wee Seng *(Chairman of the Remuneration Committee and Member of the Audit Committee and the Nomination Committee)*
Professor Xiao Baichun

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Mr. Luo Fei, Chairman, Chief Executive Officer and executive Director, is the younger brother of Mr. Luo Yun, non-executive Director. Save as disclosed, there are no financial, business, family or other material/relevant relationships among members of the Board.

THE BOARD (Continued)

Delegation By the Board

During the year ended 31 December 2011, the Board at all times met the requirements of Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive Directors make various contributions to the effective direction of the Company.

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the joint company secretaries, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board has delegated to the three Board committees the responsibility for overseeing particular aspects of the Company's affairs. All Board committees are established with defined written terms of reference which are available to shareholders upon request. The Board Committees should report to the Board on their decisions or recommendations made.

The Board has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

Chairman and Chief Executive Officer

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

Mr. Luo Fei, the Chairman of the Company, was also appointed as the Chief Executive Officer of the Company. The Board 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 BOARD (Continued)

Joint Company Secretaries

The joint company secretaries of the Company are Ms. Wong Tak Yee and Ms. Yang Wenyun. Details of the biographies of the joint company secretaries are set out in the section headed "Biography of Directors and Senior Management" on pages 28 to 36 of the Annual Report. The joint company secretaries had been informed of the requirements under Rule 3.29 of the Listing Rules and their compliance with such requirement for the year ending 31 December 2012 will be reported in the corporate governance report in the 2012 annual report of the Company.

Board Practices of Meetings

The Board meets regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications.

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management attends all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The joint company secretaries are responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Company's Articles of Association (the "Articles of Association") contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The Board has four scheduled meetings a year at quarterly interval and additional meetings will be held as and when required. The four scheduled Board meetings for a year are planned in advance. During the regular meetings of the Board held in 2011, the Board reviewed the operation and financial performance and reviewed and approved the annual or interim results.

THE BOARD (Continued)

Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2011

Name of Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meeting	Remuneration Committee Meetings	Annual General Meeting
Executive Directors					
Mr. Luo Fei *(Note 1)*	6/6	N/A	1/1	4/4	1/1
Dr. Zhang Wenhui	6/6	N/A	N/A	N/A	1/1
Ms. Kong Qingjuan	6/6	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Wu Xiong	6/6	N/A	N/A	N/A	1/1
Mr. Luo Yun	6/6	2/2	N/A	N/A	1/1
Mr. Chen Fufang	6/6	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Dr. Ngai Wai Fung *(Note 2)*	6/6	2/2	1/1	4/4	1/1
Mr. Tan Wee Seng *(Note 3)*	6/6	2/2	1/1	4/4	1/1
Professor Xiao Baichun	6/6	N/A	N/A	N/A	1/1
Date of Meeting	28/03/2011 09/06/2011 23/08/2011 28/11/2011 29/11/2011 16/12/2011	24/03/2011 22/08/2011	16/12/2011	09/06/2011 22/08/2011 29/11/2011 16/12/2011	09/06/2011

Notes:

1: Chairman of the Board and the Nomination Committee
2: Chairman of the Audit Committee
3: Chairman of the Remuneration Committee

None of the meetings set out above was attended by any alternate Director.

Independence of Independent Non-executive Directors

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of Rule 3.13 of the Listing Rules. Based on these confirmations, the Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules.

In order to better encourage the independent non-executive Directors to exert their professional knowledge and expertise for the Company, each of them was granted share options by the Company on 16 December 2011 under the Share Option Scheme adopted by the Company. Details of such grant of share options are set out on page 41 of this Annual Report.

THE BOARD (Continued)

Appointment and Re-election and Removal of Directors

Each of the Directors of the Company has entered into a service contract or a letter of appointment with the Company for a specific term. Such term is subject to his/her re-election by the Company at an annual general meeting (the "AGM") upon retirement.

In accordance with the Company's Articles of Association adopted by the Company on 25 November 2010, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election. At each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an AGM at least once every three years and being eligible offer themselves for re-election.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors of the Company for the year ended 31 December 2011 are set out in note 7 to the financial statements.

Continuous Professional Development

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

Directors have been informed of the requirement under Code Provision A.6.5 of the New CG Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the Company's 2012 annual report.

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 20 March 2012 in compliance with Code Provision D.3.1 of the New CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report. Details of the work of the Board in relation to the corporate governance function for the year ending 31 December 2012 will be disclosed in the corporate governance report in the Company's 2012 annual report.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors have acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011. The Directors' responsibility for preparing the financial statements of the Company for the year ended 31 December 2011 is set out in the Directors' Report on page 50 of the Annual Report.

THE BOARD (Continued)

Liability Insurance for Directors

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against Directors arising out of corporate activities since August 2011.

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely, Mr. Luo Fei (Chairman of the Nomination Committee), Dr. Ngai Wai Fung and Mr. Tan Wee Seng, and the majority of them are independent non-executive Directors.

The principal duties of the Nomination Committee included the following:

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board on the regular basis and make recommendations to the Board regarding any proposed changes;
- To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- To assess the independence of independent non-executive Directors of the Company; and
- To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors of the Company and succession planning for Directors of the Company in particular the Chairman and the Chief Executive Officer.

For the purpose of complying with the New CG Code adopted by the Company on 20 March 2012, the Board has adopted revised terms of reference for the Nomination Committee on 20 March 2012.

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.

The Nomination Committee held one meeting during the year ended 31 December 2011 and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2011" above.

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang, all being the non-executive Directors, shall retire from office by rotation and being eligible, offer themselves for re-election at the forthcoming AGM to be held on 30 April 2012.

The service terms of the independent non-executive Directors of the Company, namely Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun will expire on 17 December 2012. Pursuant to the respective letters of appointment, they are all eligible for election and re-appointment upon the expiration of their service terms at the forthcoming AGM to be held on 30 April 2012. The Company will make an announcement on the appointment of these independent non-executive Directors, as soon as the results are known.

The Nomination Committee recommended the re-election of Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang and the re-appointment of Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun at the forthcoming AGM of the Company.

The Company's circular dated 26 March 2012 contains detailed information of the Directors standing for re-election and re-appointment.

AUDIT COMMITTEE

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

The main duties of the Audit Committee included the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditor or external auditor before submission to the Board;

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor;

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

For the purpose of complying with the New CG Code adopted by the Company on 20 March 2012, the Board has adopted revised terms of reference for the Audit Committee on 20 March 2012.

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2011 and the annual results for the year ended 31 December 2011, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 and the Annual Report for the year ended 31 December 2011, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditor. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditor.

The Audit Committee held two meetings during the year ended 31 December 2011 and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2011" above.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements of the Company is set out in the Independent Auditor's Report on page 51.

Non-audit services by the external auditor are subject to the Audit Committee's approval and may be engaged only if they are more effective or economical than those available from other service providers and will not constitute adverse impact on the independence of the external auditor. In 2011, the external auditor provided non-audit services mainly in tax advisory and internal control review services.

The Audit Committee has reviewed the independence and objectivity of the external auditor in 2011 and has been satisfied with the findings. The Audit Committee has recommended to the Board the re-appointment of Ernst & Young as the Company's external auditor at the forthcoming AGM.

AUDIT COMMITTEE (Continued)

External Auditor and Auditor's Remuneration (Continued)

During the year under review, the remuneration paid/payable to the Company's external auditor, Ernst & Young, is set out below:

Type of Services	RMB'000
Audit services	
— Interim review service	650
— Annual audit service	1,400
Non-audit services (Tax advisory and internal control review services)	438
Total	2,488

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely, Mr. Tan Wee Seng (Chairman of the Remuneration Committee), Mr. Luo Fei and Dr. Ngai Wai Fung, and the majority of them are independent non-executive Directors.

The primary objectives of the Remuneration Committee include making recommendations on the Company's remuneration policy and structure for all remuneration of Directors and senior management, and having the delegated responsibility to determine the specific remuneration packages of the executive Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate 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.

For the purpose of complying with the New CG Code adopted by the Company on 20 March 2012, the Board has adopted revised terms of reference for the Remuneration Committee on 20 March 2012.

The Human Resources Department 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.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

The Remuneration Committee held four meetings during the year ended 31 December 2011 and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2011" above.

INTERNAL CONTROL

The Board has overall responsibility for the internal control system of the Company and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks. The Company has established policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Company also has a process for identifying, evaluating, and managing the significant risks to the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2011 and up to the date of this report. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board. The Company carries out reviews on the effectiveness of the internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget. External consultants were engaged to assist the Board to perform high-level review of the internal control systems for its business operations and processes. Such review covered the financial, compliance and operational controls as well as risk management mechanisms and assessment was made by discussions with the management of the Company and its external auditors. The Board believes that the existing internal control system is adequate and effective.

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 shareholder meetings.

Voting at general meetings of the Company is conducted by way of poll in accordance with Article 66 of the Company's Articles of Association. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (Continued)

During the year ended 31 December 2011, the Company participated at 3 investors' conferences, 3 roadshows and more than 300 individual meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the year are summarized as follows:

Date	Event	Organizer	Location
April 2011	2010 Annual Report Roadshow	The Hongkong and Shanghai Banking Corporation Limited	Hong Kong, Singapore, London, Frankfurt, Zurich, New York & Boston
June 2011	Hong Kong China Investment Seminar (Hong Kong)	Daiwa Capital Markets Hong Kong Limited	Hong Kong
August 2011	2011 Interim Report Roadshow	The Hongkong and Shanghai Banking Corporation Limited	Hong Kong
October 2011	Citi Greater China Investor Conference	Citigroup Global Markets Asia Limited	Macau
October 2011	Jefferies Consumer Corporate Access Days	Jefferies Hong Kong Ltd	Hong Kong
November 2011	Roadshow	KGI Asia Limited	Singapore

The last shareholders' meeting was the AGM held on 9 June 2011 at Island Shangri-La Hotel, Pacific Place, Hong Kong for approval of, among others, the general mandates to issue and purchase shares and the re-election of retiring Directors. Particulars of the major items considered at the AGM are set out in the circular dated 20 April 2011. All proposed ordinary resolutions were passed by way of poll at the AGM.

The forthcoming AGM will be held on 30 April 2012. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

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 available for public access. Investors may write directly to the Company or via email to IR@biostime.com.cn for any enquiries.

During the year ended 31 December 2011, there has been no significant change in the Company's constitutional documents.

SHAREHOLDER RIGHTS

How Shareholders can convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to the Article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the joint company secretaries of the Company by mail at Unit No. 2208 on 22/F of West Tower, Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the joint company secretaries by mail at Unit No. 2208 on 22/F of West Tower, Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong. The joint company secretaries forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the Chief Executive Officer of the Company.

EXECUTIVE DIRECTORS

Mr. Luo Fei (羅飛), aged 47, was appointed as an executive Director on 30 April 2010 and is the chairman and chief executive officer of the Company. He is also a director of our subsidiaries Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), Biostime (Guangzhou) Health Products Limited ("Biostime Health") and BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou"). He is primarily responsible for our overall strategies, planning and business development. He has approximately 18 years of experience in the industry of products of biotechnology. From June 1989 to October 1990, he was in the full time employ of Kanghai Enterprise Development Company of Guangzhou Economic and Technological Development Zone (廣州經濟技術開發區康海企業發展公司) as an assistant engineer. In February 1993, he established Guangzhou Baixing Bioengineering Co., Ltd. (廣州百星生物工程有限公司) and acted as the legal representative and general manager. In December 1994, he established Guangzhou Biohope Co., Ltd. ("Guangzhou Biohope"), a company engaged in import and distribution of raw materials for personal care products and household cleaning products, and he was the legal representative of this company from December 1994 to June 2010, and a director from December 1994 to date. In August 1999, he established Biostime Guangzhou and has served as the general manager in Biostime Guangzhou since then. He was a director of Biostime Health and Nutrition (Guangzhou) Limited ("Biostime Nutrition") since its establishment in September 2009 till December 2011. Mr. Luo's current social undertakings include vice-chairman of the Mommy Baby Products Association of Guangdong (廣東省孕嬰童用品協會) and chairman of the management committee of Biostime China Foundation for Mothers and Children. Mr. Luo is the younger brother of Mr. Luo Yun, one of our non-executive Directors. Mr. Luo received a bachelor's degree in microbiological engineering in July 1985 and a master's degree in industrial fermentation in June 1988 from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院). He has also completed China Europe International Business School's (中歐國際工商學院) EMBA program and was awarded a master's degree in business administration in September 2008. He is also a director of our substantial shareholder Biostime Pharmaceuticals (China) Limited ("Biostime Pharmaceuticals") since December 2003 with discloseable interests in the shares of the Company under the provisions of Divisions 2 & 3 of Part XV of the Securities and Futures Ordinance (the "SFO"). For further details, please refer to page 47 of this Annual Report.

Dr. Zhang Wenhui (張文會), aged 46, was appointed as an executive Director on 12 May 2010 and is the chief technology officer and head of the Quality Assurance Department of the Company. He is also a director of our subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou. He has become a general manager of the technology center of Biostime Health since 10 December 2010. He is primarily responsible for the research and development, product quality control and technology support, as well as international supply chain management. He has almost 16 years of experience in the industry of biotechnology, through teaching in universities and working for several companies of this industry. He joined us in October 2005 as the chief technology officer of Biostime Guangzhou, and was appointed as its director on 10 December 2010. Prior to that, he was a lecturer of bioengineering in South China University of Technology (華南理工大學) from August 1994 to August 1996. From December 2000 to August 2003, he was employed as a research assistant professor in the department of chemical engineering in University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States. After that, he served as a scientist for the process development department of Xoma (US) LLC in the United States from September 2003 to September 2005. He was a director of Biostime Nutrition since its establishment in September 2009 till December 2011. Dr. Zhang received a bachelor's degree in biochemical engineering from East China University of Science and Technology (華東理工大學), formerly known as East China College of Chemical Engineering (華東化工學院), in July 1985, a master's degree in industry fermentation and a doctorate in fermentation engineering from South China University of Technology (華南理工大學) in July 1988 and September 1994, respectively. From October 1996 to September 1997, he was engaged in international post graduate university course in microbiology in Osaka University (大阪大學). He conducted researches as a post-doctoral scientist in the department of food science and technology in the University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States from October 1997 to November 2000. He is also a director of our substantial shareholder Biostime Pharmaceuticals since May 2010 with discloseable interests in the shares of the Company under the provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 47 of this Annual Report.

EXECUTIVE DIRECTORS (Continued)

Ms. Kong Qingjuan (孔慶娟), aged 49, was appointed as an executive Director on 12 May 2010 and is the chief operating officer of the Company. She is also a supervisor of our subsidiaries Biositme Health, BMcare Guangzhou and Biostime Guangzhou. She is also a general manager of the operation centre of Biostime Health. She has over 16 years of experience in the industry of products of biotechnology and is mainly responsible for the overall procurement, logistics, production, as well as internal compliance and control. She joined us in July 2000 and was appointed as a director of Biostime Guangzhou from December 2002 to December 2010, and she was the chief operating officer of that company from January 2006 to December 2010. Prior to joining us, she worked for Hospital of Traditional Chinese Medicine of Hebei Province (河北省中醫院) from January 1983 to July 1995. From August 1995 to February 2000, she was employed by Dalian Sanzhu Bio-Cosmetic Co., Ltd. (大連三株生態化妝品有限公司). Ms. Kong graduated from Hebei Medical University (河北醫科大學), formerly known as Hebei Medical Institute (河北醫學院), with a bachelor's degree in clinical medicine in July 1985. She is also a director of our substantial shareholder Biostime Pharmaceuticals since May 2010 with discloseable interests in the shares of the Company under the provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 47 of this Annual Report.

NON-EXECUTIVE DIRECTORS

Mr. Wu Xiong (吳雄), aged 55, was appointed as a non-executive Director on 12 May 2010. He is also a director of our subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou. He has been the legal representative and general manager of Hainan Fangsheng Industry Development Co., Ltd. (海南方盛實業發展有限公司) since December 2009 and is responsible for the overall management of its business operation. Mr. Wu worked in the Administration for Industry and Commerce of Haikou City (海口市工商行政管理局) between December 1980 and December 1997. From December 1997 to December 2000, he worked for Haikou Market Properties Development Co., Ltd. (海口市市場物業發展有限公司). From December 2000 to December 2009, he was the legal representative and general manager of Hainan Junjie Automobile Sale Co., Ltd. (海南駿捷汽車銷售有限公司) and was responsible for its overall business operations. Mr. Wu graduated from Haikou No.1 Middle School (海口市第一中學) in July 1975. He is also a director of our substantial shareholder Biostime Pharmaceuticals since May 2010 with discloseable interests in the shares of the Company under the provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 47 of this Annual Report.

Mr. Luo Yun (羅雲), aged 50, was appointed as a non-executive Director on 12 May 2010. He is also a director of our subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou. From 1980 to 1993, he was employed by Haikou Qiongshan Medical Co., Ltd.(海口瓊山醫藥公司). He then worked as a sales manager for Guangzhou Biohope from December 1994 to August 1999. From August 1999 to September 2009, he held various positions in Biostime Guangzhou including the sales director and the director in charge of Mama100 membership center. From September 2009 to December 2011, he was the general manager of Biostime Nutrition, where he was responsible for the overall strategies and business development and a director of Biostime Nutrition since its establishment in September 2009 till December 2011. Mr. Luo graduated from Continuing Education School of Jinan University (暨南大學成人教育學院) in July 1987 with a certificate of graduation in business and economic management. He has also enrolled in the EMBA course of Fudan University (復旦大學) in Shanghai since November 2008. Mr. Luo is the elder brother of Mr. Luo Fei, the Chairman of the Board and an executive Director of the Company. He is also a director of our substantial shareholder Biostime Pharmaceuticals since May 2010 with discloseable interests in the shares of the Company under the provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 47 of this Annual Report.

Mr. Chen Fufang (陳富芳), aged 47, was appointed as a non-executive Director on 12 May 2010. He is also a director of our subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou. He has been a director and the general manager of Guangzhou Biohope since March 1999, and its legal representative since June 2010, where he is in charge of the overall business operations and management. Prior to that, he worked for Guangdong Textile Industry Group Company (廣東省紡織工業總公司), a company engaged in the import and export of textile products and apparels, from 1988 to 1997, where he was recognized as chemical fiber assistant engineer (化纖助理工程師) and chemical fiber engineer (化纖工程師) in March 1988 and November 1992, respectively. He graduated from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院), with a bachelor's degree in chemical fiber in July 1985 and a master's degree in chemical fiber in June 1988. He is also a director of our substantial shareholder Biostime Pharmaceuticals since May 2010 with discloseable interests in the shares of the Company under the provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 47 of this Annual Report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ngai Wai Fung (魏偉峰), aged 49, was appointed as an independent non-executive Director on 12 July 2010. Dr. Ngai is the managing director of MNCOR Consulting Limited (formerly known as MN Consulting Limited) and the chief executive officer of SWCS Corporate Services Limited. Dr. Ngai is also a vice president of the Hong Kong Institute of Chartered Secretaries (the "HKICS"). He was a director and head of Listing Services of KCS Hong Kong Limited (formerly the corporate and commercial divisions of KPMG and Grant Thornton) from 2007 to 2010 and its associate director from 2005 to 2007. Prior to that, Dr. Ngai had held various senior management positions including executive director, chief financial officer and company secretary in a number of companies listed in Hong Kong, including Cosco Group, China Unicom Limited (中國聯通股份有限公司) and Industrial and Commercial Bank of China (Asia) Limited (中國工商銀行(亞洲)有限公司). Dr. Ngai was an independent non-executive director of China Life Insurance Company Limited (中國人壽保險股份有限公司) from December 2006 to May 2009 and an independent non-executive director of Franshion Properties (China) Limited (方興地產(中國)有限公司) from May 2007 to June 2011. In addition, Dr. Ngai is currently an independent non-executive director and a member or chairman of the audit committee of the below companies, the shares of which are listed on either the Main Board of the Stock Exchange or the New York Stock Exchange (the "NYSE"):

Company Name (English)	Company Name (Chinese)	Name of Stock Exchange	Stock Code	Appointment Date
BaWang International (Group) Holding Limited	霸王國際(集團)控股有限公司	Main Board	1338	December 2008
Bosideng International Holdings Limited	波司登國際控股有限公司	Main Board	3998	September 2007
China Coal Energy Company Limited	中國中煤能源股份有限公司	Main Board	1898	December 2010
China Railway Construction Corporation Limited	中國鐵建股份有限公司	Main Board	1186	November 2007
LDK Solar Co., Ltd.	N/A	NYSE	LDK	July 2011
Powerlong Real Estate Holdings Limited	寶龍地產控股有限公司	Main Board	1238	June 2008
Sany Heavy Equipment International Holdings Company Limited	三一重裝國際控股有限公司	Main Board	631	November 2009
SITC International Holdings Company Limited	海豐國際控股有限公司	Main Board	1308	September 2010

Dr. Ngai had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities, and the provision of professional services and support to many state-owned enterprises and red-chip companies in the areas of regulatory compliance, corporate governance and secretarial services.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Dr. Ngai is a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the HKICS, a fellow of Hong Kong Institute of Directors and a member of Hong Kong Securities Institute. Dr. Ngai received a master's degree in corporate finance from Hong Kong Polytechnic University in 2002 and a master's degree in business administration from Andrews University of Michigan in 1992 and a doctorate in Economics (Finance) from Shanghai University of Finance and Economics (上海財經大學) in June 2011.

Dr. Ngai has extensive experience in accounting and financing as well as in corporate governance, which is relevant to the Company in matters relating to corporate governance practices such as internal control and internal audit.

Mr. Tan Wee Seng (陳偉成), aged 56, was appointed as an independent non-executive Director on 12 July 2010. Mr. Tan is a professional in value and business management consultancy. He has been a non-executive director of Sa Sa International Holdings Limited (莎莎國際控股有限公司) since March 2010 and Xtep International Holdings Limited (特步國際控股有限公司) since March 2010, the shares of both of which are listed on the Main Board of the Stock Exchange, an independent director of ReneSola Ltd. since April 2009, and 7 Days Group Holdings Limited since November 2009, the shares of both of which are listed on the NYSE. Below are Mr. Tan's current directorships in listed companies in tabular format.

Company Name (English)	Company Name (Chinese)	Name of Stock Exchange	Stock Code	Appointment Date
Sa Sa International Holdings Limited	莎莎國際控股有限公司	Main Board	178	March 2010
Xtep International Holdings Limited	特步國際控股有限公司	Main Board	1368	March 2010
ReneSola Ltd	N/A	NYSE	SOL	April 2009
7 Days Group Holdings Limited	N/A	NYSE	SVN	November 2009

Mr. Tan has over 30 years of experience in financial, operation and business management and has also held various senior management positions in a number of companies and multi-national corporations. From 2003 to 2008, he was an executive director, chief financial officer and company secretary of Li Ning Company Limited (李寧有限公司), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Tan is a fellow of the Chartered Institute of Management Accountants, the United Kingdom, and a fellow of the Hong Kong Institute of Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Professor Xiao Baichun (蕭柏春), aged 63, was appointed as an independent non-executive Director on 12 July 2010. Professor Xiao is a professional and scholar in management science. Professor Xiao has strong academic background and extensive experience in business management, which is relevant to our business operations in matters relating to corporate governance practices. From April 1994, he was with Seton Hall University as an associate professor and was promoted to professor in March 1999. He was also the chairman of computing and decision sciences department of Seton Hall University in 1998. Since September 1998, he has been with Long Island University pursuing his teaching career and is now a senior professor. He has also been the chairman of the department of management of Long Island University since 18 September 2005. Professor Xiao was appointed by various universities in China as either a chair professor or a visiting professor. For example, he has been a faculty member of Peking University (北京大學) since January 2005, a visiting professor of Chinese University of Hong Kong (香港中文大學), a guest professor and a director of Chinese American Center for service and operation management in Southwest Jiaotong University (西南交通大學) since May 2004, a distinguished professor of EMBA program in Fudan University (復旦大學) since August 2005 and a lifetime professor of the management school of Sichuan University (四川大學) since May 2000. As a testament to his achievement, Professor Xiao received various awards in his research area. He received "University Fellowship" from Wharton School, University of Pennsylvania in 1986 and 1987 and "Outstanding Scholarship Award" from Seton Hall University in 1998 and 1999. He also received from College of Management of Long Island University "Outstanding Scholarship Award" in 2006. Professor Xiao currently serves as a member of the board of directors of Nanjing University (南京大學). Professor Xiao received a bachelor's degree in mathematics from Nanjing University (南京大學) in July 1982, a MBA degree from Catholic University of Leuven, Belgium in March 1985, and his Ph.D. from Wharton School, University of Pennsylvania in December 1990.

SENIOR MANAGEMENT

Mr. Zhao Li (趙力), aged 42, joined the Group in October 2004 and is our sales and marketing general manager. He was employed by Chenzhou Institute for Drug Control (郴州市藥品檢驗所) till January 2003. He joined us in October 2004 as the regional sales manager for Guangdong Province, and was promoted to be our regional sales manager for South China in December 2006, sales and marketing director for infant formula products in July 2007, and sales and marketing director in December 2007. Mr. Zhao was appointed as our sales and marketing general manager in May 2010 and is now in charge of the operation of sales channels, overall marketing strategies and promotion tactics, by leveraging his abundant experience in sales and marketing. Mr. Zhao obtained a bachelor's degree in Chinese medicine from Hunan College of Traditional Chinese Medicine (湖南中醫學院) in July 1991. He has also enrolled in the EMBA courses of South China University of Technology (華南理工大學) since December 2009.

Mr. Zhu Dingping (朱定平), aged 35, joined the Group in February 2007. He is our senior sales director and is mainly responsible for the overall sales affairs. Before joining the Group, he had over ten years of experience in the pharmaceutical industry mainly obtained from working for companies in this industry. He was with Guangdong Minglin Pharmaceutical Co., Ltd. (廣東明林藥業有限公司) as a regional sales manager from August 1996 to December 2006. Mr. Zhu received a certificate of graduation in pharmaceutical science from China Pharmaceutical University (中國藥科大學) in July 2006 for completing the adult higher education courses. He also participated in several advanced trainings so as to improve his professional skills. For instance, in September 2004, he attended the executive training program jointly held by the Asia-Pacific Institute of Business of the Chinese University of Hong Kong (香港中文大學亞太研究所) and Nin Jion Medicine Mfy (HK) Ltd. (香港京都念慈庵總廠有限公司). He had also completed the Business Administration training courses of Lingnan (University) College, Sun Yat-Sen University (中山大學嶺南(大學)學院) and received the certificate of completion in February 2003. He is currently enrolling in the EMBA courses of Management School, Jinan University (暨南大學管理學院). He obtained a certificate of pharmacist (藥師資格證) by the Professional Titles ReformWork Leading Group of Guangdong Drug Administration (廣東省藥品監督管理局職稱改革領導小組) in March 2003.

SENIOR MANAGEMENT (Continued)

Dr. Patrice Malard, aged 57, joined the Group in October 2010. He is our chief scientific officer and is mainly responsible for providing technical support and advice to the research and development of our products. He was the scientific consultant of Biostime Guangzhou from 1 March 2008 to 30 September 2010. Dr. Patrice has approximately 20 years of experience in the nutrition products industry. From October 1981 to March 1990, he worked for Gist Brocades SA as a science director. From April 1990 to June 1991, he was employed by CPIAA SA as a manager. From June 1991 to November 1994, he was the strategy and development director of the French subsidiary of Pioneer France Maïs SA. He also has worked as a director of Silab Sarl and sales and marketing director of Lallemand SAS for the period from February 1995 to October 2007. From March 2008 till now, he was the owner of Kloarys Développement Sarl and acted as the general manager. He obtained his Ph.D. in molecular and cellular Biology from Lille University of Science and Technology in 1981.

Mr. Chen Guanghua (陳光華), aged 36, joined the Group in March 2008. He is the director in charge of Mama100 membership center and is mainly responsible for the operation and development of such center. He had over ten years of working experience in the field of information technology, especially the ERP system, CRM system and enterprise informatization, before joining the Group. From July 1997 to January 1999, he worked in Guangdong Fotao Group Co., Ltd. (廣東佛陶集團股份有限公司) as an assistant engineer. From January 1999 to February 2008, he was employed by Guangzhou Tianjian Computer System Engineering Co., Ltd. (廣州天劍計算機系統工程有限公司) and assumed positions including software engineer, department manager and deputy general manager, respectively. Mr. Chen was selected as an expert in science and technology for the database of experts by Science and Information Technology Bureau of Guangzhou (廣州市科技和信息化局) and he also won the "Science and Technology Award of Guangzhou" (廣州市科學技術獎) by Guangzhou Municipal Government in October 2006 and the "Science and Technology Award of Foshan" (佛山市科學技術進步獎) by Foshan Municipal Government in June 2006. In July 1997, Mr. Chen obtained a bachelor's degree in silicate science and engineering from Tongji University (同濟大學). In December 2004, he obtained a master's degree in computer technology from South China University of Technology (華南理工大學).

Ms. Laetitia Garnier (安玉婷), aged 31, joined the Group in July 2010. She is our international cooperation director and is mainly responsible for the establishment and maintenance of our relationships with foreign entities. From December 2003 to August 2010, she worked for French Trade Commission in South China and was mainly responsible for providing lobbying and operational support to French companies exporting and investing in China, especially in the field of consumer goods and health sectors. Prior to that, she also has interned with the United States Senate in Washington D.C. from January 2001 to June 2001, the Banque Populaire Group in Paris from July 2001 to September 2001 and the LVMH Group in Paris from September 2002 to March 2003. In July 2003, she obtained a master's degree in business administration and corporate strategy from Institute of Political Studies in Paris.

Mr. Cao Wenhui (曹文輝), aged 33, joined the Group in March 2007. He is our chief finance officer and is mainly responsible for the overall financial and accounting affairs. He has over eight years of experience in financial management. He worked in Guangzhou BlueMoon Co., Ltd. (廣州藍月亮有限公司) as an accounting supervisor (管理會計) until May 2003. Between July 2003 and June 2005, Mr. Cao was an assistant finance manager in Guangzhou Devotion Thermal Equipment Co., Ltd. (廣州迪森熱能設備有限公司). From July 2005 to February 2007, he was with Mead Johnson (Guangzhou) Co., Ltd. (美贊臣(廣州)有限公司) as a senior accountant. Mr. Cao obtained a bachelor's degree in accounting from Anhui Finance & Trade College (the predecessor to Anhui University of Finance and Economics) (安徽財貿學院(現為安徽財經大學)) in December 2001. He has also enrolled in the EMBA courses of Carlson School of Management, University of Minnesota since September 2010. Mr. Cao is now a non-practicing member of Guangdong Provincial Institute of Certified Public Accountants (廣東省註冊會計師協會). He also obtained the qualification of certified tax agent (註冊稅務師) by the Department of Human Resources of Guangdong Province (廣東省人事廳) in June 2005.

SENIOR MANAGEMENT (Continued)

Ms. Qin Xia (秦霞), aged 33, is our marketing director and is mainly responsible for the overall marketing affairs. She joined the Group in November 2006 and was promoted to be our marketing director from senior marketing manager in September 2011. Ms. Qin has almost nine years of experience in marketing and corporate strategic planning. From October 2002 to October 2003, she worked in Guangdong Yazhida Advertisement Co., Ltd. (廣東雅志達廣告有限公司) as a copy director. From August 2004 to July 2005, she was with Guangzhou Star Advertising & Promotion Co., Ltd. (廣州星際藝術傳播有限公司) as a strategy manager. Ms. Qin obtained a bachelor's degree in advertising from Beijing Technology and Business University (北京工商大學) in July 2002. She has also enrolled in the EMBA courses of Lingnan (University) College, Sun Yat-Sen University (中山大學嶺南(大學)學院) since May 2010.

Mr. Hu Xiaocheng (胡曉成), aged 34, joined the Group in November 2004 and is our key accounts director. His experience is mainly in the sector of marketing and sales. He worked as a sales specialist for the Beijing sales branch of Jiangxi Tecom Science Co., Ltd. (江西特康科技有限公司) from 2000 to 2003, and was mainly responsible for selling products to hospital clients in north China. He joined us as the manager of our Shangrao sales office in Jiangxi Province. Due to his sound working performance, he was promoted to be our sales manager for Ningbo City in February 2005, regional sales manager for Shanghai in February 2006 and senior manager for sales administration in February 2007. Mr. Hu was appointed as our senior key accounts manager in May 2010 and promoted to be our key accounts director in September 2011 and by leveraging his experience in marketing and sales, he is now responsible for our sales channel of retail sales organizations. Mr. Hu received a junior college diploma in computer accounting from Jiangxi Radio and TV University (江西廣播電視大學) in July 1999. He has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since September 2010.

Mr. Xu Lesheng (徐樂生), aged 36, is our strategy and development director and is mainly responsible for our strategies and planning affairs. He has been with the Group since August 2001 and was appointed as our strategy and development director in September 2011. Before joining the Group, Mr. Xu had rich experience in the pharmaceutical industry, serving in different positions in product development, marketing and corporate strategic planning. From November 1998 to June 1999, he was employed by Xiamen Feipeng Industrial Co., Ltd. (廈門飛鵬工業有限公司). From June 1999 to March 2001, he worked in Nanjing Cuccess Pharmaceutical Co., Ltd. (南京臣功製藥有限公司). Mr. Xu obtained a bachelor's degree in chemical engineering and biochemistry engineering from Huaqiao University (華僑大學) in July 1998. He has also enrolled in the EMBA courses of graduate school of Xiamen University (廈門大學) since September 2010.

Mr. Xu Zhenjie (許振傑), aged 33, is our human resource director and is responsible for the overall human resource affairs. He has approximately ten years of working experience in human resource management. From July 2001 to March 2006, he worked in the strategy development department and then was a human resource and administration manager in Guangzhou Ouya Mattress & Furniture Co., Ltd. of Symbol Group (廣州歐亞床墊家具有限公司). Between March and May of 2006, he was with Guangzhou Baiyun Tianjun International Media Co., Ltd. (廣州白雲天駿國際傳媒有限公司) as a human resource manager. He joined the Group in December 2006 and was appointed human resource director in September 2011. Mr. Xu obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2001. He has also enrolled in the EMBA courses of Carlson School of Management, University of Minnesota since September 2010. Mr. Xu has participated in several professional training courses. For instance, senior human resources manager training program by the Professor & Manager Institute of Sun Yat-Sen University (中山大學教授經理研究會) from 30 March 2002 to 14 April 2002, tsinghua project management training by Aura International Management Training Centre in December 2008 and human resources management program by China Europe International Business School (中歐國際工商學院) in December 2008. He received the occupational qualification certificate of the first level of enterprise human resource management consultant (企業人力資源管理師) in December 2009 and the certificate of talent assessment consultant (人才評測師) in May 2006.

SENIOR MANAGEMENT (Continued)

Mr. Xiong Huoyan (熊火焰), aged 39, is our promotion director and is mainly responsible for promotion affairs. He joined the Group in December 2001 as the business representative for Guangdong Province and has been with the Group since then. He has nearly ten years of experience in product promotion. He was promoted to be our promotion manager in March 2006, senior promotion manager in March 2008 and promotion director in September 2011, and is now mainly responsible for promotional affairs of the Group. Mr. Xiong received a certificate of graduation in thermal power engineering after three years' study in the department of Material Science & Engineering of Jingdezhen Ceramic Institute (景德鎮陶瓷學院) in July 1996. He has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since September 2010.

Ms. Mao Xiaoqing (毛曉青), aged 39, joined the Group in July 2007. She is our senior medical and technical support manager and is mainly responsible for medical and technical affairs regarding our products. Ms. Mao obtained a bachelor's degree in pharmaceutical analysis from China Pharmaceutical University (中國藥科大學) in July 1995. She obtained a master's degree in biochemistry from Nanjing University (南京大學) in June 2000 and the other master's degree in medical anthropology from University of Amsterdam in August 2001. In August 2007, she finished five and a half years' study at University of Missouri-Columbia (US) and obtained a doctorate in biochemistry. Besides, Ms. Mao participated in several professional training courses in the past. For instance, in September 2007, she finished the training course for public nutritionist at Guangdong Zhongda Pharmaceutical Professional Training School, Sun Yat-Sen University (中山大學廣東中大醫藥職業培訓學院) and received certificate of completion; in May 2008, she participated in and completed an online course of eight class hours on protection of human subject research participants, which was designed for those involved in the design and/or conduct of research involving human participants and presented information about protections for human participants in research, and received the relevant certificate of completion from the National Institutes of Health (NIH) Office of Extramural Research. The NIH is a part of the US Department of Health and Human Services, and is the nation's medical research agency.

Mr. Sun Rigao (孫日高), aged 38, joined the Group in May 2008. He is our production plant manager and is mainly responsible for production affairs, as well as various environmental and occupational health and safety issues under PRC laws and regulations, on a regular basis. He has approximately ten years of experience in production management. He worked as a production supervisor in Schering Pharmaceutical (Guangzhou) Co., Ltd. (先靈(廣州)藥業有限公司) between June 2001 and August 2005. From September 2005 to April 2008, he worked in Baxter Healthcare (Guangzhou) Co., Ltd. (廣州百特醫療用品有限公司) as a senior production supervisor. Mr. Sun obtained a bachelor's degree in pharmaceutical preparation from Shenyang Pharmaceutical University (瀋陽藥科大學) in July 1997. In June 2009, he obtained a MBA degree from Sun Yat-Sen University (中山大學). He also obtained a certificate of licensed pharmacist (執業藥師註冊證) issued by the Guangdong Food and Drug Administration (廣東省食品藥品監督管理局) in June 2010.

JOINT COMPANY SECRETARIES

Ms. Wong Tak Yee (黃德儀), aged 55, was appointed as one of our joint company secretaries and authorised representative of the Company on 12 July 2010. Ms. Wong is a director of the Corporate Services Division of Tricor Services Limited. Prior to joining Tricor Group in 2000, she was a senior manager of the company secretarial services department at Deloitte Touche Tohmatsu in Hong Kong. Ms. Wong is a Chartered Secretary and a fellow member of both The Institute of Chartered Secretaries and Administrators and the HKICS. She also received a master's degree of arts in English for the professions from The Hong Kong Polytechnic University in 2009 and holds the Practitioner's Endorsement Certificate issued by the HKICS. Ms. Wong has over 25 years of experience in providing corporate secretarial services.

JOINT COMPANY SECRETARIES (Continued)

Ms. Yang Wenyun (楊文筠), aged 27, joined the Group in August 2005 and was appointed as one of our joint company secretaries on 12 July 2010. She is also the senior manager of the external affairs department. Ms. Yang started her professional career with the Group and has obtained substantial experience in administration, corporate governance, legal affairs and public relations over the past six years with us. From August 2005 to December 2008, she was working as an assistant of public affairs and was mainly responsible for our legal affairs and public relations. Concurrently, being an assistant to the general manager since November 2006, she has been responsible for part of our administrative affairs. From December 2008 to February 2010, she was promoted to be our legal manager and was responsible for the overall legal affairs and public relations. In February 2010, she assumed the responsibility of leading the newly established risk control department and she has been in charge of legal affairs, public relations and internal audit of the Group. Ms. Yang obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2005.

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 Company's 2011 Interim Report are set out below:

Name of Director	Details of Changes
Luo Fei	Resigned as a director of Biostime Nutrition on 19 December 2011
Zhang Wenhui	Resigned as a director of Biostime Nutrition on 19 December 2011
Luo Yun	1. Resigned as a director of Biostime Nutrition on 19 December 2011 2. Ceased to be the general manager of Biostime Nutrition on 19 December 2011

The Board hereby presents its report and the audited financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group. The Group is principally engaged in providing premium pediatric nutritional and baby care products to high-end mothers. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2011 are set out in note 15 to the financial statements.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2011 are set out in the consolidated financial statements on pages 53 to 108 of the Annual Report. An interim dividend of HK$0.16 per ordinary share in respect of the period ended 30 June 2011 was paid to the shareholders on 23 September 2011. The Directors recommend the payment of a final dividend of HK$0.27 per ordinary share and a special dividend of HK$0.33 per ordinary share for the year ended 31 December 2011 to be paid on or about 15 May 2012 to the shareholders whose names appear on the register of members of the Company on 9 May 2012. This recommendation has been incorporated in the financial statements as an allocation of share premium within the equity section of the statement of financial position.

The final dividend of HK$0.27 per ordinary share and special dividend of HK$0.33 per ordinary share are subject to approval by the shareholders in the forthcoming AGM of the Company to be held on Monday, 30 April 2012 (the "2012 AGM"). Such dividends will be distributed from the share premium of the Company. In the opinion of the Directors, such distribution is in compliance with the Articles of Association adopted by the Company on 25 November 2010, which states that dividend may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividend may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law of the Cayman Islands; subject to the provisions of its Memorandum of Association or Articles of Association and provided that immediately following the distribution or paying dividend, the Company will be able to pay off its debts as they fall due in the ordinary course of business. Details of the dividends for the year ended 31 December 2011 are set out in note 10 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2012 AGM

The register of members of the Company will be closed from 26 April 2012 to 30 April 2012, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2012 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 25 April 2012.

CLOSURE OF REGISTER OF MEMBERS (Continued)

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

The register of members of the Company will be closed from 7 May 2012 to 9 May 2012, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend and special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre,183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 4 May 2012.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year ended 31 December 2011 are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Group and the Company during the year ended 31 December 2011 are set out in note 24 to the financial statements.

RESERVE

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2011 are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company's reserves, including the share premium account and contributed surplus, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to approximately RMB4,241.3 million, of which approximately RMB132.0 million and RMB161.4 million have been proposed as a final dividend and a special dividend respectively for the year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account and contributed surplus under certain circumstances. Details of the reserves of the Company as at 31 December 2011 are set out in note 27 to the financial statements.

CHARITABLE DONATION

The Group's donation to charity includes the donation of RMB0.1 for each box or can of any of the Group's products sold to Biostime China Foundation for Mother and Child established by the Group in cooperation with the Chinese Red Cross Foundation since 2007. For each of the three years ended 31 December 2009, 2010 and 2011, the Group's donations to charity were RMB0.6 million, RMB1.1 million and RMB1.6 million, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on pages 109 to 110. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total revenue for the year. None of the Directors or supervisors or their associates or any of the shareholders of the Company had any interest in any of the five largest customers of the Group.

Purchases by the Group from the largest supplier amounted to RMB610.9 million in 2011, accounting for 74.8% of the total purchases of the Group for the year, while the purchases made from the five largest suppliers amounted to RMB720.0 million, accounting for 88.1% of the total purchases of the Group for the year. None of the Directors or supervisors or their associates or any of the shareholders of the Company had any interest in any of the five largest suppliers of the Group.

DIRECTORS

The Directors of the Company during the year and up to the date of the Annual Report were as follows:

Executive Directors

Mr. Luo Fei
Dr. Zhang Wenhui
Ms. Kong Qingjuan

Non-executive Directors

Mr. Wu Xiong
Mr. Luo Yun
Mr. Chen Fufang

Independent non-executive Directors

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

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang, all being the non-executive Directors, shall retire from office by rotation and being eligible, offer themselves for re-election at the forthcoming AGM to be held on 30 April 2012.

The service terms of the independent non-executive Directors of the Company, namely Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun, all of whom were appointed on 12 July 2010, will expire on 17 December 2012. Pursuant to the respective letters of appointment, they are all eligible for election and re-appointment upon the expiration of their service terms at the forthcoming AGM to be held on 30 April 2012. The Company will make an announcement on the appointment of these independent non-executive Directors, as soon as the results are known.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the terms set out in the respective service contracts. Each of the executive Directors is entitled to a director's fee, and is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year of the Company may not exceed 5% of audited consolidated net profit of (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. An executive Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the performance-based bonus payable to him.

Each of the non-executive Directors has entered into a letter of appointment for a term of three years commencing from the Listing Date until terminated by not less than one month's notice in writing served by the non-executive Directors on the Company or in accordance with the provisions set out in the respective letters of appointment. The non-executive Directors are not entitled to any director's fee.

Each of the independent non-executive Directors has entered into a letter of appointment for a term of two years commencing from the Listing Date until terminated by not less than one month's notice in writing served by the independent non-executive Directors on the Company or in accordance with the provisions set out in the respective letters of appointment. Each of the independent non-executive Directors is entitled to a director's fee.

None of the Directors who are proposed for re-election or re-appointment at the 2012 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF THE DIRECTORS

Details of remuneration of the Directors during the year ended 31 December 2011 are set out in note 7 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 28 to 36 of the Annual Report.

EMOLUMENT POLICY

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and Mainland China, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a Pre-IPO Share Option Scheme, a Share Option Scheme and a Share Award Scheme for its employees.

None of the Directors waived any emoluments during the year ended 31 December 2011.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent in accordance with Rule 3.13.

PARTIAL EXERCISE OF THE OVER-ALLOTMENT OPTION

The Company announced that the over-allotment option was partially exercised by the sole bookrunner, the Hongkong and Shanghai Banking Corporation Limited, on behalf of the international underwriters on 7 January 2011 in respect of 2,294,000 shares, representing approximately 1.5% of the total number of shares initially available under the global offering before any exercise of the over-allotment option, to cover over-allocations in the international offer. The 2,294,000 shares were allotted and issued by the Company on 11 January 2011 at HK$11.00 per share (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%), being the offer price per offer share under the global offering.

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

As at 31 December 2011, 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 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	Underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company *(Note 3)*
Luo Fei	Beneficial owner	Long position	621,239 *(Note 1)*	0.1031%
Zhang Wenhui	Beneficial owner	Long position	404,795 *(Note 1)*	0.0672%
Kong Qingjuan	Beneficial owner	Long position	381,558 *(Note 1)*	0.0634%
Ngai Wai Fung	Beneficial owner	Long position	100,000 *(Note 2)*	0.0166%
Tan Wee Seng	Beneficial owner	Long position	100,000 *(Note 2)*	0.0166%
Xiao Baichun	Beneficial owner	Long position	100,000 *(Note 2)*	0.0166%

Note 1: These are the share options granted by the Company under the Pre-IPO Share Option Scheme. Details of the Company's Pre-IPO Share Option Scheme are set out in the section headed "Share Option Schemes" below.

Note 2: These are the share options granted by the Company under the Share Option Scheme. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes" below.

Note 3: The over-allotment option was partially exercised on 7 January 2011, resulting in an increase of the total number of the issued shares of the Company from 600,000,000 to 602,294,000 on 11 January 2011.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under 18 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 31 December 2011.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

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

Except for the allotment and issuance due to the partial exercise of the over-allotment option, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

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

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Share Option Scheme became effective on 25 November 2010 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding share options (the "Share Options") granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30.0% of the total number of shares in issue of the Company from time to time.

The maximum number of shares which may be issued upon exercise of all Share Options to be granted under the Share Option Scheme and any other schemes of the Group shall not, in aggregate, exceed 10.0% of the total number of shares in issue of the Company as at the Listing Date. The maximum number of shares issued and to be issued upon exercise of the Share Options granted to any eligible participant in the Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue from time to time. Any further grant of Share Options in excess of this limit is subject to shareholders' approval in a general meeting.

Share Options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding the independent non-executive directors who or whose associates are the grantees of a Share Option). In addition, any grant of Share Options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, would result in the securities issued and to be issued upon exercise of all Share Options already granted and to be granted (including Share Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: a) representing in aggregate over 0.1% of the relevant class of securities in issue; and b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5.0 million, such further grant of Share Options must be approved by shareholders of the Company (voting by way of a poll).

SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

The offer of a grant of Share Options may be accepted within 28 days from the date of offer, upon payment of a consideration of HK$1 by the grantee. The exercise period of the Share Options granted will be determined by the board of directors of the Company in its absolute discretion, save no Share Option may be exercised more than ten years after it has been granted on the date of acceptance of such Share Option. Subject to such terms and conditions as the board may determine, there is no minimum period for which a Share Option must be held before it can be exercised.

The exercise price of Share Options is determined by the board, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the Share Options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

The Share Options under the Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 9 June 2011, 29 November 2011 and 16 December 2011 (the "Dates of Grant") respectively, 978,532 Share Options, 1,265,151 Share Options and 300,000 Share Options to subscribe for the ordinary shares of HK$0.01 each in the share capital of the Company (the "Shares") were granted to grantees (the "Grantees") under the Share Option Scheme.

Each Share Option shall entitle the holder of the Share Option to subscribe for one Share upon exercise of such Share Option at an exercise price, which represents the highest of (1) the nominal value of a Share; (2) the closing price per Share as stated in the daily quotation sheets issued by the Stock Exchange on the Date of Grant; and (3) the average closing price per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant. The exercise prices for the Share Options granted on 9 June 2011, 29 November 2011 and 16 December 2011 were HK$15.312 per Share, HK$11.52 per Share and HK$12.12 per Share, respectively. A movement of valid grantees and options under the Share Option Scheme during the year ended 31 December 2011 by category of grantees is set out below:

	Number of Grantees					
Category of grantees	Outstanding as at 1 January 2011	Granted on 9 June 2011	Granted on 29 November 2011	Granted on 16 December 2011	Ineligible during the year	Outstanding as at 31 December 2011
Independent non-executive Directors	–	–	–	3	–	3
Senior management member	–	1	–	–	–	1
Other employees	–	108	137	–	(15)	230
	–	109	137	3	(15)	234

SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

Category of grantees	Outstanding as at 1 January 2011	Granted on 9 June 2011	Granted on 29 November 2011	Granted on 16 December 2011	Cancelled/ lapsed during the year	Outstanding as at 31 December 2011
	Number of Shares to be issued upon fully exercise of all options granted under the Share Option Scheme					
Independent non-executive Directors	–	–	–	300,000	–	300,000
Senior management member	–	103,484	–	–	–	103,484
Other employees	–	875,048	1,265,151	–	(102,229)	2,037,970
	–	978,532	1,265,151	300,000	(102,229)	2,441,454

Details of the Share Options granted to the three independent non-executive Directors by the Company under the Share Option Scheme are set out on page 41 of the Annual Report.

102,229 Share Options lapsed during the year ended 31 December 2011.

The Share Options having been granted 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 the Listing Date	30% of the total number of Share Options granted
Any time after the fourth anniversary of the Listing Date	30% of the total number of Share Options granted
Any time after the fifth anniversary of the Listing Date	40% of the total number of Share Options granted

Save as disclosed above, none of the Grantees is a Director, chief executive or substantial shareholder of the Company, or their respective associates (as defined in the Listing Rules).

No Share Options granted under the Share Option Scheme were exercised during the year ended 31 December 2011.

Pre-IPO Share Option Scheme

1. *Summary of terms*

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 share options granted under the Pre-IPO Share Option Scheme is HK$2.53;

SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

1. *Summary of terms* (Continued)

(b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further share options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date;

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

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

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

All the options under the Pre-IPO Share Option Scheme were granted on 16 July 2010 at a consideration of HK$1.00 paid by each grantee.

2. *Outstanding Share Options Granted*

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 executive Directors and 14 members of the senior management of the Group. As of 31 December 2011, 38 employees were no longer eligible for share options granted under the Pre-IPO Share Option Scheme due to failure to meet performance target or retirement, and 666,088 share options granted under the Pre-IPO Share Option Scheme became invalid. A movement of valid grantees and share options granted under the Pre-IPO Share Option Scheme during the year by category of grantees is set out below:

Category of grantees	Eligible as at 1 January 2011	Number of grantees ineligible during the year ended 31 December 2011	Eligible as at 31 December 2011
Executive Directors	3	—	3
Senior management members	14	—	14
Other employees	293	(38)	255
Business partner	1	—	1
	311	(38)	273

SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

2. *Outstanding Options Granted* (Continued)

	Number of shares to be issued upon fully exercise of all share options granted under the Pre-IPO Share Option Scheme		
Category of grantees	**Outstanding as at 1 January 2011**	**Cancelled/ lapsed during the year ended 31 December 2011**	**Outstanding as at 31 December 2011**
Executive Directors	1,407,592	—	1,407,592
Senior management members	2,655,665	—	2,655,665
Other employees	6,749,250	(666,088)	6,083,162
Business partner	100,000	—	100,000
	10,912,507	(666,088)	10,246,419

Details of the share options granted to the three executive Directors by the Company under the Pre-IPO Share Option Scheme are set out on page 41 of the Annual Report.

Save as disclosed above, no share options were granted under the Pre-IPO Share Option Scheme and no share options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2011.

SHARE AWARD SCHEME

The Share Award Scheme was adopted by the Board on 28 November 2011 (the "Adoption Date"). 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 (the "Trustee") 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 more than one year but 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.

SHARE AWARD SCHEME (Continued)

Details of the Share Award Scheme are set out in the Company's announcement dated 28 November 2011. No share was granted under the Share Award Scheme for the year ended 31 December 2011.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS

Save as disclosed under the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company" and "Share Option Schemes" above, at no time during the year was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 31 December 2011, 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: The over-allotment option was partially exercised on 7 January 2011, resulting in an increase of the total number of the issued shares of the Company from 600,000,000 to 602,294,000 on 11 January 2011.

Note 2: Biostime Pharmaceuticals 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 disclosed above, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had an interest in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 31 December 2011.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2011.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest in, whether directly or indirectly, subsisted at the end of the year or at any time during the year. No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders has confirmed to the Company of his/its compliance with the non-compete undertakings provided to the Company under the Deed of Non-Competition (as defined in the Prospectus). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders.

According to the Prospectus, the controlling shareholders of the Company have undertaken to dispose of all equity interests in Biostime Nutrition to independent third party(ies) through Biostime Pharmaceuticals and change the name of Biostime Nutrition so that it will not contain the word "Biostime". On 19 December 2011, the controlling shareholders of the Company disposed of all equity interests in Biostime Nutrition to an independent third party. Each of Mr. Luo Fei, Mr. Luo Yun and Dr. Zhang Wenhui, Directors of the Company, also resigned from being the director of Biostime Nutrition on 19 December 2011. As at 31 December 2011, the proceedings with the change of the name of Biostime Nutrition were still in progress, as some relevant regulations with respect to health foods in the PRC which are necessary for such change of company name have not been promulgated and implemented by relevant government authorities yet. The change of the name of Biostime Nutrition shall be completed pending the promulgation and implementation of such relevant regulations by relevant government authorities. Each of Biostime Nutrition and the Independent Third Party Buyer has undertaken to Biostime Pharmaceuticals that Biostime Nutrition shall, as soon as practicable upon the promulgation and implementation of such relevant regulations, change its company name so that it will not contain the English word "Biostime" or the Chinese word "合生元", and shall be liable for all adverse effect on Biostime Pharmaceuticals or its subsidiaries resulting from delay of change of company name of Biostime Nutrition.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of our Directors has confirmed that he or she does not have any competing business with the Group. The directors' equity interests in Biostime Nutrition were disposed to an independent third party on 19 December 2011, as they had undertaken to do so (For detailed information about their such undertakings, please refer to pages 177 to 183 of the Prospectus).

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Members of our Group have entered into certain continuing transactions with Biostime Nutrition, who was a connected person of our Company till 19 December 2011. These connected transactions constituted exempt continuing connected transactions for our Company under Rule 14.A.33(3) of the Listing Rules and accordingly, were exempted from the reporting, annual review, announcement and independent shareholders' approval requirements stipulated under the Listing Rules. Our Directors have confirmed that these exempt continuing connected transactions were undertaken on an arm's length basis and on normal commercial terms and the percentage ratios (other than the profit ratios) on an annual basis were all less than 0.1% or if more than 0.1% were less than 5.0% and the annual considerations were less than HK$1.0 million. Save as disclosed herein, no continuing connected transactions have been entered into by members of the Group.

AUDIT COMMITTEE

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

AUDIT COMMITTEE (Continued)

The main duties of the Audit Committee included the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditor or external auditor before submission to the Board;

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor;

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

For the purpose of complying with the New CG Code, the Board has adopted revised terms of reference for the Audit Committee on 20 March 2012.

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2011 and the annual results for the year ended 31 December 2011, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 and the Annual Report for the year ended 31 December 2011, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditor. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditor.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code during the year ended 31 December 2011.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this Annual Report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended 31 December 2011.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 17 to 27 of the Annual Report.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the 2012 AGM.

On behalf of the Board
Luo Fei
Chairman

Hong Kong, 20 March 2012

ERNST & YOUNG
安 永

To the shareholders of Biostime International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Biostime International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 53 to 108, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

20 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	**2,189,034**	1,233,560
Cost of sales		**(732,907)**	(356,387)
Gross profit		**1,456,127**	877,173
Other income and gains	5	**71,751**	4,353
Selling and distribution costs		**(708,604)**	(449,453)
Administrative expenses		**(82,041)**	(87,640)
Other expenses		**(23,326)**	(10,370)
PROFIT BEFORE TAX	6	**713,907**	334,063
Income tax expense	8	**(186,556)**	(68,380)
PROFIT FOR THE YEAR		**527,351**	265,683
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(55,898)**	(8,151)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**471,453**	257,532
Profit attributable to owners of the parent	9	**527,351**	265,683
Total comprehensive income attributable to owners of the parent		**471,453**	257,532
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		**0.88**	0.58
Diluted		**0.86**	0.58

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**59,420**	31,280
Intangible assets	13	**1,423**	1,168
Deposits	14	**30,461**	1,640
Time deposits	19	**160,000**	—
Deferred tax assets	22	**36,397**	5,769
Total non-current assets		**287,701**	39,857
CURRENT ASSETS			
Inventories	16	**297,387**	106,098
Trade and bills receivables	17	**9,721**	5,211
Prepayments, deposits and other receivables	18	**29,156**	22,622
Cash and cash equivalents	19	**1,814,101**	1,728,211
Total current assets		**2,150,365**	1,862,142
CURRENT LIABILITIES			
Trade payables	20	**67,200**	65,833
Other payables and accruals	21	**265,145**	142,344
Tax payable		**82,709**	28,170
Total current liabilities		**415,054**	236,347
NET CURRENT ASSETS		**1,735,311**	1,625,795
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,023,012**	1,665,652
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	**45,452**	5,760
Net assets		**1,977,560**	1,659,892
EQUITY			
Equity attributable to owners of the parent			
Issued capital	24	**5,161**	5,141
Reserves	27(a)	**1,678,987**	1,553,354
Proposed dividends	10	**293,412**	101,397
Total equity		**1,977,560**	1,659,892

Luo Fei

Director

Kong Qingjuan

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		Attributable to owners of the parent									
	Notes	Issued capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Statutory reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
At 1 January 2010		–	–	24,982	251	–	14,940	(14)	89,256	41,142	170,557
Profit for the year		–	–	–	–	–	–	–	265,683	–	265,683
Other comprehensive income for the year: Exchange differences on translation of foreign operations		–	–	–	–	–	–	(8,151)	–	–	(8,151)
Total comprehensive income for the year		–	–	–	–	–	–	(8,151)	265,683	–	257,532
Transfer to statutory reserve funds		–	–	–	–	–	6,237	–	(6,237)	–	–
Dividend declared to the ultimate holding company before listing	10	–	–	–	–	–	–	–	(104,814)	(41,142)	(145,956)
Contribution from the owner		–	–	5,797	–	–	–	–	–	–	5,797
Acquisition of subsidiaries	24	3,856	–	(3,787)	(156)	–	–	–	–	–	(87)
Issue of shares	24	1,285	1,411,676	–	–	–	–	–	–	–	1,412,961
Share issue expenses	24	–	(43,561)	–	–	–	–	–	–	–	(43,561)
Equity-settled share option arrangements	25	–	–	–	–	2,649	–	–	–	–	2,649
Proposed final 2010 dividend	10	–	(101,397)	–	–	–	–	–	–	101,397	–
At 31 December 2010 and 1 January 2011		5,141	1,266,718*	26,992*	95*	2,649*	21,177*	(8,165)*	243,888*	101,397	1,659,892
Profit for the year		–	–	–	–	–	–	–	527,351	–	527,351
Other comprehensive income for the year: Exchange differences on translation of foreign operations		–	–	–	–	–	–	(55,898)	–	–	(55,898)
Total comprehensive income for the year		–	–	–	–	–	–	(55,898)	527,351	–	471,453
Transfer to statutory reserve funds		–	–	–	–	–	59,279	–	(59,279)	–	–
Issuance of new shares upon exercise of the over-allotment options	24	20	21,467	–	–	–	–	–	–	–	21,487
Share issue expenses	24	–	(539)	–	–	–	–	–	–	–	(539)
Equity-settled share option arrangements	25	–	–	–	–	5,721	–	–	–	–	5,721
Final 2010 dividend declared	10	–	–	–	–	–	–	–	–	(101,397)	(101,397)
Interim 2011 dividend	10	–	(79,057)	–	–	–	–	–	–	–	(79,057)
Proposed final 2011 dividend	10	–	(132,035)	–	–	–	–	–	–	132,035	–
Proposed special 2011 dividend	10	–	(161,377)	–	–	–	–	–	–	161,377	–
At 31 December 2011		5,161	915,177*	26,992*	95*	8,370*	80,456*	(64,063)*	711,960*	293,412	1,977,560

* These reserve accounts comprise the consolidated reserves of RMB1,678,987,000 (2010: RMB1,553,354,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**713,907**	334,063
Adjustments for:			
Bank interest income	5	**(17,289)**	(2,224)
Depreciation	6	**12,848**	6,827
Amortisation of intangible assets	6	**133**	235
Loss on disposal of items of property, plant and equipment	6	**122**	88
Write-back of impairment of trade receivables	6	**—**	(62)
Write-down of inventories to net realisable value	6	**947**	369
Equity-settled share option expense	6	**5,721**	2,649
		716,389	341,945
Increase in inventories		**(192,236)**	(25,514)
Increase in trade and bills receivables		**(4,510)**	(1,496)
Increase in prepayments, deposits and other receivables		**(3,513)**	(1,707)
Decrease in an amount due from a director		**—**	300
Decrease in amounts due from related companies		**—**	7,958
Increase in trade payables		**1,367**	26,176
Increase in other payables and accruals		**127,141**	77,128
Increase in rental deposits	14	**(5,473)**	—
Decrease in an amount due to a related company		**—**	(48)
Cash generated from operations		**639,165**	424,742
Corporate income tax paid		**(122,953)**	(43,730)
Net cash flows from operating activities		**516,212**	381,012
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(38,764)**	(17,375)
Proceeds from disposal of items of property, plant and equipment		**251**	59
Additions to intangible assets	13	**(388)**	(304)
Interest received		**14,268**	2,224
Decrease in restricted cash		**—**	6,090
Increase in a deposit for the purchase of a parcel of land		**(20,950)**	—
Acquisition of a subsidiary		**—**	(87)
Increase in time deposits with original maturity of three months or more when acquired	19	**(323,645)**	—
Increase in non-current time deposits	19	**(160,000)**	—
Net cash flows used in investing activities		**(529,228)**	(9,393)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Net cash flows used in investing activities		**(529,228)**	(9,393)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	24	**21,487**	1,412,961
Share issue expenses		**(9,879)**	(41,354)
Repayment of a bank loan		**—**	(500)
Contributions from the ultimate holding company		**—**	5,797
Dividends paid to the ultimate holding company before listing		**—**	(145,956)
Dividends paid to owners of the parent		**(180,454)**	—
Net cash flows from/(used in) financing activities		**(168,846)**	1,230,948
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(181,862)**	1,602,567
Cash and cash equivalents at beginning of year		**1,728,211**	133,795
Effect of foreign exchange rate changes, net		**(55,893)**	(8,151)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,490,456**	1,728,211
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**1,490,456**	1,728,211

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**28**	82
Deposits	14	**1,077**	—
Investments in subsidiaries	15	**3,297,058**	3,266,503
Total non-current assets		**3,298,163**	3,266,585
CURRENT ASSETS			
Due from subsidiaries	15	**55,951**	180
Prepayments, deposits and other receivables	18	**311**	723
Cash and cash equivalents	19	**951,638**	1,369,430
Total current assets		**1,007,900**	1,370,333
CURRENT LIABILITIES			
Trade payables	20	**26,915**	—
Due to subsidiaries	15	**27,676**	26,132
Other payables and accruals	21	**5,038**	9,579
Total current liabilities		**59,629**	35,711
NET CURRENT ASSETS		**948,271**	1,334,622
Net assets		**4,246,434**	4,601,207
EQUITY			
Issued capital	24	**5,161**	5,141
Reserves	27(b)	**3,947,861**	4,494,669
Proposed dividends	10	**293,412**	101,397
Total equity		**4,246,434**	4,601,207

Luo Fei

Director

Kong Qingjuan

Director

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standards ("IASs") and Interpretations promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

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

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 9	*Financial Instruments*[6]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	Amendments to IAS1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[4]
IAS 27 (Revised)	*Separate Financial Statements*[4]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[4]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 7 Amendments require an entity to disclose both quantitative and qualitative information for the derecognition of financial assets where the entity has a continuing involvement in the derecognised assets. The Group expects to adopt IFRS 7 Amendments from 1 January 2012. As the Group does not have continuing involvement in the derecognised assets, the amendments will not have any financial impact on the Group.

IFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013. The adoption of the amendments is unlikely to have any material financial impact on the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

IAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in SIC-21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group expects to adopt IAS 12 Amendments from 1 January 2012.

IAS 19 Amendments includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 Amendments from 1 January 2013.

IAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalent to net settlements. The Group expects to adopt the amendments from 1 January 2014. The application of these amendments is unlikely to have any material financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and machinery	9% to 18%
Furniture, fixtures and office equipment	18%
Motor vehicles	18%
Leasehold improvements	Over the shorter of the lease terms and 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include trade and bills receivables, other receivables and deposits, cash and cash equivalents and time deposits, which are classified as loans and receivables.

Subsequent measurement

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the profit or loss. The loss arising from impairment is recognised in the profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade payables and other financial liabilities included in other payables and accruals.

Subsequent measurement

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit or loss.

Customer loyalty program

The Group operates a customer loyalty program which allows customers to earn points when they purchase products of the Group. The points can then be redeemed for free services or products, subject to a minimum number of points being obtained. The consideration received or receivable from the products sold is allocated between the points earned by the customer loyalty program members and the other components of the sales transactions. The amount allocated to the points earned by the customer loyalty program members is deferred until the points are redeemed when the Group fulfils its obligations to supply services or products or when the points expire.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Share-based payment transactions

The Company operates two share option schemes and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in note 25 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The Company grants the share options to its subsidiaries' employees to exchange for their services provided to the subsidiaries. Accordingly, in the Company's statement of financial position, the equity-settled share option expense, which is recognised in the consolidated financial statements, is treated as part of the "investments in subsidiaries".

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits or share premium within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

The functional currency of the Company is the Hong Kong dollar ("HK$") while the presentation currency of the Company for the financial statements is the RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of the overseas subsidiary is a currency other than the RMB. As at the end of the reporting period, the assets and liabilities of the entity are translated into the presentation currency of the Company at the exchange rate ruling at the end of the reporting period and its profit or loss is translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into RMB at the weighted average exchange rate for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Tax provisions

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislations and practices.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Deferred tax liabilities

Deferred income tax liabilities have not been established for income tax and withholding tax that would be payable on certain profits of the subsidiaries in the Mainland China to be repatriated and distributed by way of dividends as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future.

If those undistributed earnings of the subsidiaries in Mainland China are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred income tax liability would have been increased by the same amount of approximately RMB36,697,000.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for obsolete inventories

Management reviews the aged analysis of inventories of the Group at each reporting date, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale or that will be sold below cost. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2011, the carrying amounts of inventories were approximately RMB297,387,000 (2010: RMB106,098,000) after netting off the allowance for inventories of approximately RMB1,023,000 (2010: RMB805,000).

Deferred income

The amount of revenue attributable to the points earned by the members of the Group's customer loyalty program is estimated based on the fair value of the points awarded and the expected redemption rate. The expected redemption rate is estimated considering the number of the points that will be available for redemption in the future after allowing for points which are not expected to be redeemed.

4. OPERATING SEGMENT INFORMATION

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

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

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

(c) the dried baby food products segment comprises the production of dried baby food products made from natural foods, such as meat, seafood, fruit and vegetables, for infants and young children;

(d) the baby care products segment comprises the production of baby care products for infants and children, including baby diapers and toiletry kits as well as personal care products for nursing mothers, such as nursing pads; and

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

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

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

During the years ended 31 December 2011 and 2010, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2011	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	331,962	1,684,655	97,126	47,845	27,446	–	2,189,034
Segment results	258,321	1,103,626	55,652	19,232	19,296	–	1,456,127
Reconciliations:							
Interest income							17,289
Other income and unallocated gains							54,462
Corporate and other unallocated expenses							(813,971)
Profit before tax							713,907
Other segment information:							
Depreciation and amortisation	2,792	757	825	56	342	8,209	12,981
Write-down of inventories to net realisable value	126	38	280	503	–	–	947
Capital expenditure*	248	1,099	171	187	450	39,599	41,754

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2010	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	303,749	793,565	97,779	38,467	—	—	1,233,560
Segment results	248,724	542,598	64,448	21,403	—	—	877,173
Reconciliations:							
Interest income							2,224
Other income and unallocated gains							2,129
Corporate and other unallocated expenses							(547,463)
Profit before tax							334,063
Other segment information:							
Depreciation and amortisation	1,279	163	350	13	—	5,257	7,062
Write-back of impairment of trade receivables	(62)	—	—	—	—	—	(62)
Write-down of inventories to net realisable value	—	—	369	—	—	—	369
Capital expenditure*	331	428	106	99	—	15,812	16,776

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2011 RMB'000	2010 RMB'000
Revenue		
Sale of goods	2,189,034	1,233,560
Other income and gains		
Bank interest income	17,289	2,224
Foreign exchange gain	52,784	—
Others	1,678	2,129
	71,751	4,353

6. PROFIT BEFORE TAX

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

	Notes	2011 RMB'000	2010 RMB'000
Cost of inventories sold		731,960	356,018
Depreciation	12	12,848	6,827
Amortisation of intangible assets	13	133	235
Research and development costs*		19,775	5,927
Loss on disposal of items of property, plant and equipment		122	88
Minimum lease payments under operating leases in respect of buildings		23,085	6,791
Auditors' remuneration		2,050	1,270
Employee benefit expenses (including directors' remuneration) (note 7(a)):			
Wages and salaries		218,979	130,925
Pension scheme contributions (defined contribution schemes)		31,867	16,916
Staff welfare and other expenses		12,139	6,287
Equity-settled share option expense	25	5,721	2,649
		268,706	156,777
Write-back of impairment of trade receivables*	17	—	(62)
Write-down of inventories to net realisable value#		947	369

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

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2011	2010
	RMB'000	RMB'000
Fees	**1,350**	30
Other emoluments:		
Salaries, allowances and benefits in kind	**3,948**	2,400
Performance related bonuses	**10,324**	5,641
Equity-settled share option expense	**704**	342
Pension scheme contributions	**138**	93
	15,114	8,476
	16,464	8,506

During the year, independent non-executive directors were granted share options, in respect of their services to the Group, under the Company's share option scheme of the Company, further details of which are set out in note 25 to the financial statements. The fair value of these share options which has been recognised in the consolidated statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

(a) Directors' remuneration (Continued)

The remuneration of each of the directors for the year ended 31 December 2011 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2011						
Executive directors:						
Mr. Luo Fei	200	2,378	5,368	304	53	8,303
Dr. Zhang Wenhui	200	824	2,043	198	32	3,297
Mr. Kong Qingjuan	200	746	2,913	187	53	4,099
	600	3,948	10,324	689	138	15,699
Non-executive directors:						
Mr. Luo Yun	–	–	–	–	–	–
Mr. Wu Xiong	–	–	–	–	–	–
Mr. Chen Fufang	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive directors:						
Mr. Ngai Wai Fung	250	–	–	5	–	255
Mr. Tan Wee Seng	250	–	–	5	–	255
Professor Xiao Baichun	250	–	–	5	–	255
	750	–	–	15	–	765
	1,350	3,948	10,324	704	138	16,464

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

(a) Directors' remuneration (Continued)

The remuneration of each of the directors for the year ended 31 December 2010 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2010						
Executive directors:						
Mr. Luo Fei	–	1,393	2,865	151	42	4,451
Dr. Zhang Wenhui	–	568	1,601	98	9	2,276
Mr. Kong Qingjuan	–	439	1,175	93	42	1,749
	–	2,400	5,641	342	93	8,476
Non-executive directors:						
Mr. Luo Yun	–	–	–	–	–	–
Mr. Wu Xiong	–	–	–	–	–	–
Mr. Chen Fufang	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive directors:						
Mr. Ngai Wai Fung	10	–	–	–	–	10
Mr. Tan Wee Seng	10	–	–	–	–	10
Professor Xiao Baichun	10	–	–	–	–	10
	30	–	–	–	–	30
	30	2,400	5,641	342	93	8,506

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

(b) Five highest paid employees

The five highest paid employees during the year included three (2010: three) directors, details of whose remuneration are set out in note 7(a) above. Details of the remuneration of the remaining two (2010: two) non-director, highest paid employees for the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	1,292	785
Performance related bonuses	4,526	2,519
Equity-settled share option expense	296	166
Pension scheme contributions	105	83
	6,219	3,553

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2011	2010
HK$1,500,001 to HK$2,000,000	—	1
HK$2,000,001 to HK$2,500,000	—	1
HK$2,500,001 to HK$3,000,000	—	—
HK$3,000,001 to HK$3,500,000	1	—
HK$3,500,001 to HK$4,000,000	—	—
HK$4,000,001 to HK$4,500,000	1	—
	2	2

The fair value of these share options, which has been recognised in the consolidated statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

8. INCOME TAX

	2011 RMB'000	2010 RMB'000
Group:		
Current — Charge for the year		
Mainland China	177,451	62,793
France	41	—
Deferred (note 22)	9,064	5,587
Total tax charge for the year	186,556	68,380

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.

8. INCOME TAX (Continued)

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil).

PRC enterprise income tax ("EIT")

Pursuant to the PRC Enterprise Income Tax Law and the respective regulations, except for the preferential tax treatment available to Biostime (Guangzhou) Health Products Limited (the "Biostime Health"), the subsidiaries of the Group which operate in Mainland China are subject to EIT at a rate of 25% on their respective taxable income for the years ended 31 December 2011 and 2010.

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

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the majority of the subsidiaries of the Company is domiciled to the tax expense at the effective tax rate is as follows:

	2011 RMB'000	2010 RMB'000
Group:		
Profit before tax	713,907	334,063
Tax at the applicable PRC enterprise income tax rate	178,477	83,516
Overseas tax differential	(3,013)	—
Effect of tax concession for Biostime Health	(24,799)	(27,725)
Income not subject to tax	(9,500)	—
Expenses not deductible for tax	5,699	37
Effect of a lower enacted tax rate used for the recognition of deferred tax	—	4
Tax losses not recognised	—	6,788
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	39,692	5,760
Tax charge at the Group's effective rate	186,556	68,380

9. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of RMB36,003,000 (2010: a loss of RMB27,018,000) which has been dealt with in the financial statements of the Company (note 27(b)).

10. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Interim — HK$0.16 (2010: Nil) per ordinary share	**79,057**	—
Proposed final — HK$0.27 (2010: HK$0.20) per ordinary share	**132,035**	101,397
Proposed special — HK$0.33 (2010: Nil) per ordinary share	**161,377**	—
	372,469	101,397

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

The dividends paid by the Company's subsidiaries to the then shareholder before the listing of the Company were as follows:

	2011 RMB'000	2010 RMB'000
Dividends declared	**—**	145,956

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 602,231,151 (2010: 456,164,384) in issue during the year as if the group reorganisation (the "Reorganisation") had been effective since 1 January 2010.

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

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

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

	2011 RMB'000	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	527,351	265,683

	Number of shares 2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	602,231,151	456,164,384
Effect of dilution — weighted average number of ordinary shares:		
Share options	8,312,670	327,500
Over-allotment options	—	924,657
	610,543,821	457,416,541

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2011 includes the weighted average of 2,294,000 shares issued on 11 January 2011 pursuant to the exercise of the over-allotment options, namely 2,231,151 shares, and 600,000,000 shares issued and fully paid immediately after the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 December 2010 (the "Listing Date").

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2011	**10,602**	**15,502**	**13,368**	**7,818**	**82**	**47,372**
Additions	**2,423**	**23,796**	**11,014**	**4,128**	**5**	**41,366**
Transfers	**–**	**–**	**–**	**83**	**(83)**	**–**
Disposals	**–**	**(173)**	**(1,180)**	**–**	**–**	**(1,353)**
Exchange alignment	**–**	**–**	**–**	**(2)**	**(4)**	**(6)**
At 31 December 2011	**13,025**	**39,125**	**23,202**	**12,027**	**–**	**87,379**
Accumulated depreciation:						
At 1 January 2011	**3,549**	**4,915**	**4,093**	**3,535**	**–**	**16,092**
Depreciation provided during the year	**1,602**	**6,167**	**3,072**	**2,007**	**–**	**12,848**
Disposals	**–**	**(122)**	**(858)**	**–**	**–**	**(980)**
Exchange alignment	**–**	**–**	**–**	**(1)**	**–**	**(1)**
At 31 December 2011	**5,151**	**10,960**	**6,307**	**5,541**	**–**	**27,959**
Net carrying amount:						
At 31 December 2011	**7,874**	**28,165**	**16,895**	**6,486**	**–**	**59,420**
Cost:						
At 1 January 2010	9,776	7,142	6,665	7,818	–	31,401
Additions	835	8,848	6,707	–	82	16,472
Disposals	(9)	(488)	(4)	–	–	(501)
At 31 December 2010	10,602	15,502	13,368	7,818	82	47,372
Accumulated depreciation:						
At 1 January 2010	2,193	2,736	2,714	1,976	–	9,619
Depreciation provided during the year	1,360	2,526	1,382	1,559	–	6,827
Disposals	(4)	(347)	(3)	–	–	(354)
At 31 December 2010	3,549	4,915	4,093	3,535	–	16,092
Net carrying amount:						
At 31 December 2010	7,053	10,587	9,275	4,283	82	31,280

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:			
At 1 January 2011	—	82	82
Additions	—	5	5
Transfers	83	(83)	—
Exchange alignment	(2)	(4)	(6)
At 31 December 2011	81	—	81
Accumulated depreciation:			
At 1 January 2011	—	—	—
Depreciation provided during the year	54	—	54
Exchange alignment	(1)	—	(1)
At 31 December 2011	53	—	53
Net carrying amount:			
At 31 December 2011	28	—	28
Cost:			
At 1 January 2010	—	—	—
Additions	—	82	82
At 31 December 2010	—	82	82
Accumulated depreciation:			
At 1 January 2010	—	—	—
Depreciation provided during the year	—	—	—
At 31 December 2010	—	—	—
Net carrying amount:			
At 31 December 2010	—	82	82

13. INTANGIBLE ASSETS

Group

Computer software	2011 RMB'000	2010 RMB'000
Cost:		
At 1 January	1,669	1,365
Additions	388	304
At 31 December	2,057	1,669
Accumulated amortisation:		
At 1 January	501	266
Amortisation provided during the year	133	235
At 31 December	634	501
Net carrying amount:		
At 31 December	1,423	1,168

14. DEPOSITS

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Deposit paid for the purchase of land	20,950	—	—	—
Deposits paid for the purchase of property, plant and equipment	4,038	1,640	1,077	—
Rental deposits	5,473	—	—	—
	30,461	1,640	1,077	—

15. INVESTMENTS IN SUBSIDIARIES

Company

	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost	3,290,050	3,264,213
Capital contribution in respect of employee share-based compensation	7,008	2,290
	3,297,058	3,266,503

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB55,951,000 (2010: RMB180,000) and RMB27,676,000 (2010: RMB26,132,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Company (Continued)

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity directly attributable to the Company	Principal activities
BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou")	People's Republic of China/Mainland China	US$18,010,000	100%	Research, development, processing of meat, fruit and vegetable powder and candy, sale of nutritional food, milk formulas and personal care products for infants and adults
Biostime (Guangzhou) Health Products Limited ("Biostime Health")	People's Republic of China/Mainland China	US$17,100,000	100%	Research, development, manufacture and sale of health products and special nutritional foods
BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou")	People's Republic of China/Mainland China	US$1,000,000	100%	Wholesale, retail and import and export of personal care products for infants
Biostime Pharma	France	EUR10,000	100%	Trade of infant food and nutritional products

Except for Biostime Pharma which was incorporated under the laws of France with limited liability, all the above PRC companies are wholly-foreign-owned enterprises under the PRC law.

16. INVENTORIES

Group

	2011 RMB'000	2010 RMB'000
Raw materials	253,152	82,250
Work in progress	1,175	6,483
Finished goods	43,060	17,365
	297,387	106,098

17. TRADE AND BILLS RECEIVABLES

Group

	2011 RMB'000	2010 RMB'000
Trade receivables	**1,380**	549
Bills receivable	**8,341**	4,662
Less: Impairment provision	**—**	—
	9,721	5,211

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

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

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

Group

	2011 RMB'000	2010 RMB'000
Within 1 month	**4,815**	1,075
1 to 3 months	**3,202**	2,503
Over 3 months	**1,704**	1,633
	9,721	5,211

The above aged analysis included the bills receivable balance of RMB8,341,000 (2010: RMB4,662,000).

The movements in the provision for impairment of trade receivables are as follows:

Group

	2011 RMB'000	2010 RMB'000
At 1 January	**—**	62
Impairment losses reversed (note 6)	**—**	(62)
At 31 December	**—**	—

17. TRADE AND BILLS RECEIVABLES (Continued)

The aged analysis of trade and bills receivables of the Group that are neither individually nor collectively considered to be impaired is as follows:

Group

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	9,421	5,114
Past due but not impaired		
Less than 3 months past due	—	91
Over 3 months past due	300	6
	9,721	5,211

Receivables that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default. These customers who trade on credit terms are subject to credit verification procedures.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Prepayments	8,704	9,547	—	—
Deposits	864	1,716	36	38
Other receivables	14,323	11,359	275	685
Prepaid expenses	5,265	—	—	—
	29,156	22,622	311	723

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**1,490,456**	1,728,211	**951,638**	1,369,430
Time deposits	**483,645**	—	**—**	—
	1,974,101	1,728,211	**951,638**	1,369,430
Less: Non-pledged time deposits with original maturity of more than one year when acquired	**(160,000)**	—	**—**	—
Cash and cash equivalents as stated in the consolidated statement of financial position	**1,814,101**	1,728,211	**951,638**	1,369,430
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(323,645)**	—	**—**	—
Cash and cash equivalents as stated in the consolidated statement of cash flows	**1,490,456**	1,728,211	**951,638**	1,369,430

As at 31 December 2011, cash and bank balances and time deposits denominated in RMB of the subsidiaries in Mainland China amounted to RMB976,989,000 (2010: RMB358,516,000). The RMB of the subsidiaries in Mainland China is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. 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.

20. TRADE PAYABLES

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 month	**51,222**	40,090	**24,756**	—
1 to 3 months	**15,682**	23,165	**2,159**	—
Over 3 months	**296**	2,578	**—**	—
	67,200	65,833	**26,915**	—

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

21. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**29,115**	9,017	**—**	—
Salaries and welfare payables	**50,754**	14,452	**600**	—
Accruals	**74,709**	47,102	**2,655**	9,340
Other tax payables	**63,445**	58,067	**—**	—
Deferred income (note 23)	**18,309**	6,603	**—**	—
Other payables	**28,813**	7,103	**1,783**	239
	265,145	142,344	**5,038**	9,579

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

22. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group

	Provision for impairment of assets RMB'000	Future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Accrued liabilities and deferred income RMB'000	Total RMB'000
At 1 January 2011	105	376	1,438	3,850	5,769
Credited to the consolidated statement of comprehensive income for the year	229	12,010	4,941	13,448	30,628
At 31 December 2011	334	12,386	6,379	17,298	36,397
At 1 January 2010	94	460	1,186	3,856	5,596
Credited/(charged)to the consolidated statement of comprehensive income for the year	11	(84)	252	(6)	173
At 31 December 2010	105	376	1,438	3,850	5,769

22. DEFERRED TAX (Continued)

Deferred tax liabilities

Group

	Withholding taxes on distributable earnings of subsidiaries in Mainland China RMB'000
At 1 January 2011	5,760
Charged to the consolidated statement of comprehensive income for the year	39,692
At 31 December 2011	45,452
At 1 January 2010	—
Charged to the consolidated statement of comprehensive income for the year	5,760
At 31 December 2010	5,760

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2011 RMB'000	2010 RMB'000
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	36,397	5,769
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	(45,452)	(5,760)
	(9,055)	9

Pursuant to the Enterprise Income Tax Law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The applicable rate for the Group is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2011, the Group has not recognised deferred tax liabilities of RMB36,697,000 (2010: RMB23,039,000) in respect of temporary differences relating to the unremitted profits of subsidiaries, amounting to RMB366,965,000 (2010: RMB230,385,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

23. DEFERRED INCOME

Group

	2011 RMB'000	2010 RMB'000
Customer loyalty program		
At 1 January	**6,603**	12,915
Addition	**195,469**	87,368
Recognised as revenue during the year	**(183,763)**	(93,680)
At 31 December	**18,309**	6,603

24. SHARE CAPITAL

Shares

	2011	2010
Authorised:		
10,000,000,000 (2010: 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 (2010: 600,000,000) ordinary shares of HK$0.01 each	**HK$6,022,940**	HK$6,000,000
Equivalent to	**RMB5,161,000**	RMB5,141,000

On 11 January 2011, the Company allotted and issued 2,294,000 ordinary shares of HK$0.01 each pursuant to the over-allotment options as referred to the Prospectus and offered at a price of HK$11.00 per share for a total cash consideration, before expenses, of HK$25,234,000 (equivalent to RMB21,487,000).

24. SHARE CAPITAL (Continued)

Shares (Continued)

The movement in the Company's issued share capital is as follows:

	Number of shares in issued	Issued capital	Share premium account	Total
		RMB'000	RMB'000	RMB'000
On 30 April 2010 (date of incorporation)	1	—	—	—
Issuance of new shares for the Reorganisation	449,999,999	3,856	—	3,856
Issuance of new shares for the initial public offering	150,000,000	1,285	1,411,676	1,412,961
Share issue expenses	—	—	(43,561)	(43,561)
Proposed final 2010 dividend	—	—	(101,397)	(101,397)
At 31 December 2010 and 1 January 2011	600,000,000	5,141	1,266,718	1,271,859
Issuance of new shares upon exercise of the over-allotment options	2,294,000	20	21,467	21,487
Share issue expenses	—	—	(539)	(539)
Interim 2011 dividend	—	—	(79,057)	(79,057)
Proposed final 2011 dividend	—	—	(132,035)	(132,035)
Proposed special 2011 dividend	—	—	(161,377)	(161,377)
At 31 December 2011	602,294,000	5,161	915,177	920,338

25. SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

On 12 July 2010, the Company adopted a pre-initial public offering share option scheme (the "Pre-IPO Share Option Scheme"). The purpose of the Pre-IPO Share Option Scheme is to give the directors, senior management, employees and business partners an opportunity to have a personal stake in the Company and help motivate the directors, senior management, employees and business partners to optimise their performance and efficiency and/or to reward them for their past contributions, and also to retain or otherwise maintain ongoing 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 dated 12 July 2010, are as follows:

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

(b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further share options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date;

25. SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

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

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

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

All the share options under the Pre-IPO Share Option Scheme were granted on 16 July 2010 at a consideration of HK$1 paid by each grantee.

The share options under the Pre-IPO Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated at approximately RMB25,068,000 of which the Group recognised a share option expense of RMB4,788,000 during the year ended 31 December 2011 (2010: RMB2,649,000).

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

	First batch	Second batch	Third batch
Dividend yield (%)	0.00	0.00	0.00
Expected volatility (%)	57.06	57.06	57.06
Risk-free interest rate (%)	1.77	1.77	1.77
Expected life of options (years)	4.81	5.31	5.81

At the end of the reporting period, the Company had 10,246,419 share options outstanding under the Pre-IPO Share Option Scheme with 666,088 share options forfeited during the year. The exercise in full of the outstanding share options under the Pre-IPO Share Option Scheme would, under the present capital structure of the Company, result in the issue of 10,246,419 additional ordinary shares of the Company and additional share capital of HK$102,000 (RMB83,000) and share premium of HK$25,821,000 (RMB20,933,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 10,218,841 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.7% of the Company's shares in issue as at that date.

25. SHARE OPTION SCHEMES (Continued)

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Share Option Scheme became effective on 25 November 2010 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30.0% of the total number of shares in issue of the Company from time to time.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes of the Group shall not, in aggregate, exceed 10.0% of the total number of shares in issue of the Company as at the Listing Date. The maximum number of shares issued and to be issued upon exercise of the share options granted to any eligible participant in the Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue from time to time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding the independent non-executive directors who or whose associates are the grantees of a share option). In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, would result in the securities issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: a) representing in aggregate over 0.1% of the relevant class of securities in issue; and b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5.0 million, such further grant of share options must be approved by shareholders of the Company (voting by way of a poll).

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted will be determined by the board of directors of the Company in its absolute discretion, save no share option may be exercised more than ten years after it has been granted on the date of acceptance of such share option. Subject to such terms and conditions as the board may determine, there is no minimum period for which a share option must be held before it can be exercised.

The exercise price of share options is determined by the board, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

The share options under the Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

25. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

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

	2011		2010	
	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	N/A	—	N/A	—
Granted during the year	13.05	2,544	N/A	—
Forfeited during the year	14.27	(103)	N/A	—
At 31 December	13.00	2,441	N/A	—

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

2011

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

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

25. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

The fair values of the share options under the Share Option Scheme granted were estimated as at the respective date of grant, using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used and the fair values:

Grant date	9 June 2011	29 November 2011	16 December 2011
Dividend yield (%)	2.03	2.50	2.50
Expected volatility (%)	54.89	50.53	50.66
Risk-free interest rate (%)	1.49	0.87	0.97
Expected life of share options (years)	4.03 – 5.03	3.55 – 4.55	3.51 – 4.51
Weighted average share price (HK$ per share)	15.14	11.52	12.12
Fair value	HK$5,225,000	HK$4,386,000	HK$1,094,000

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

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

The Group recognised a share option expense of RMB933,000 (2010: Nil) during the year ended 31 December 2011.

At the end of the reporting period, the Company had 2,441,454 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options under the Share Option Scheme would, under the present capital structure of the Company, result in the issue of 2,441,454 additional ordinary shares of the Company and additional share capital of HK$24,000 (RMB19,000) and share premium of HK$31,709,000 (RMB25,707,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 2,336,334 share options outstanding under the Share Option Scheme, which represented approximately 0.4% of the Company's shares in issue as at that date.

26. SHARE AWARD SCHEME

A share award scheme (the "Share Award Scheme") was adopted by the board on 28 November 2011 (the "Adoption Date"). 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 through an award of the Company's shares. 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.

The Group has appointed a trustee (the "Trustee") for the purpose of administering the Share Award Scheme. Shares will be acquired by the independent trustee (the "Trustee") on the market out of the funds contributed by the Company and be held in trust for the eligible participants in accordance with the provisions of the Share Award Scheme. The vesting period shall, in any extent, be more than one year but no longer than ten years.

The maximum number of shares awarded under the Share Award Scheme shall not exceed 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.

26. SHARE AWARD SCHEME (Continued)

The maximum number of shares which may be awarded to an eligible participant under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

At the end of the reporting period, the Company has neither granted any shares to eligible participant nor provided any funds to the Trustee pursuant to the Share Award Scheme.

Subsequent to the end of the reporting period, the Trustee has purchased a total number of 2,494,000 ordinary shares of the Company at a total cash consideration of approximately HK$35,528,000, including transaction costs.

At the date of approval of these financial statements, none of the purchased shares was awarded.

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 55 of the financial statements.

The Group's contributed surplus represents the excess of the nominal value of shares of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the Company's shares issued and cash consideration paid in exchange therefor.

The Group's capital reserve represents 1% of equity in Biostime Health contributed by Biostime Pharmaceuticals, the ultimate shareholder, in year 2009 when Biostime Health became a fully owned subsidiary of the Group.

In accordance with the Company Law of the People's Republic of China, 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 ("PRC GAAP"), 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.

27. RESERVES (Continued)

(b) Company

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
On 30 April 2010 (date of incorporation)		–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	(7,950)	(27,018)	(34,968)
Issue of shares	24	1,411,676	–	–	–	–	1,411,676
Share issue expenses	24	(43,561)	–	–	–	–	(43,561)
Equity-settled share option arrangements	25	–	–	2,649	–	–	2,649
Acquisition of subsidiaries		–	3,260,270	–	–	–	3,260,270
Proposed final 2010 dividend	10	(101,397)	–	–	–	–	(101,397)
At 31 December 2010 and 1 January 2011		**1,266,718**	**3,260,270**	**2,649**	**(7,950)**	**(27,018)**	**4,494,669**
Total comprehensive income for the year		**–**	**–**	**–**	**(236,991)**	**36,003**	**(200,988)**
Issuance of new shares upon exercise of the over- allotment options	24	**21,467**	**–**	**–**	**–**	**–**	**21,467**
Share issue expenses	24	**(539)**	**–**	**–**	**–**	**–**	**(539)**
Equity-settled share option arrangements	25	**–**	**–**	**5,721**	**–**	**–**	**5,721**
Interim 2011 dividend	10	**(79,057)**	**–**	**–**	**–**	**–**	**(79,057)**
Proposed final 2011 dividend	10	**(132,035)**	**–**	**–**	**–**	**–**	**(132,035)**
Proposed special 2011 dividend	10	**(161,377)**	**–**	**–**	**–**	**–**	**(161,377)**
At 31 December 2011		**915,177**	**3,260,270**	**8,370**	**(244,941)**	**8,985**	**3,947,861**

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired, pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

28. CONTINGENT LIABILITIES

At the end of the reporting date, neither the Group nor the Company had any significant contingent liabilities.

29. OPERATING LEASE ARRANGEMENTS

As lessee

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

As at 31 December 2011 and 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**27,089**	9,290	**222**	122
In the second to fifth years, inclusive	**56,411**	10,460	**—**	608
After five years	**1,873**	4,868	**—**	—
	85,373	24,618	**222**	730

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 reporting period:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Intangible assets	**198**	774	**—**	—
Fixed assets	**4,246**	—	**2,106**	—
	4,444	774	**2,106**	—

31. RELATED PARTY BALANCES AND TRANSACTIONS

The Group had the following material transactions with related parties during the year:

(a) Related party transactions

	Notes	2011 RMB'000	2010 RMB'000
Purchases from a company under common control of directors	(i)	—	23
Sales of finished goods to a distributor which is controlled by a brother of a director	(ii)	—	2,836
A related party*:			
— Loans granted	(iii)	—	7,350
— Sales of finished goods	(iv)	—	631
— Sales of raw materials	(v)	16	1,031
— Sales of fixed assets	(vi)	—	53
— Rental income	(vii)	—	118
— Production services provided	(viii)	57	40
— Sales agency services provided	(ix)	232	167
— Purchase of finished goods	(i)	386	—

* This company, an indirect jointly-controlled entity of the ultimate holding company, became a wholly-controlled entity of the ultimate holding company since 4 January 2011. This company was considered as a related party to the Group prior to its disposal to an independent third party on 19 December 2011.

Notes:

(i) The purchases were conducted in accordance with mutually agreed terms.

(ii) The sales were conducted in accordance with terms agreed between the Group and its related company, with reference to similar transactions with third party customers.

(iii) The loans to a related party were unsecured and non-interest-bearing.

(iv) The finished goods were sold based on mutually agreed terms.

(v) The raw materials were sold at cost.

(vi) The sales of fixed assets were conducted on mutually agreed terms.

(vii) The rental income was based on mutually agreed terms.

(viii) The production services were provided based on mutually agreed terms.

(ix) The sales agency services were provided based on mutually agreed terms.

The related party transactions in respect of items (viii) and (ix) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

31. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

At the end of the reporting period, there was no balance arising from the above related party transactions (2010: Nil).

(c) Compensation of key management personnel of the Group

In addition to the amounts paid to the Company's directors as disclosed in note 7(a), compensation of other key management personnel of the Group is as follows:

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	23,447	12,287
Pension scheme contributions	1,000	537
Equity-settled share option expense	1,438	645
Total compensation paid to key management personnel	25,885	13,469

32. FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets — loans and receivables

Group

	Notes	2011 RMB'000	2010 RMB'000
Trade and bills receivables	17	9,721	5,211
Financial assets included in prepayments, deposits and other receivables	18	15,187	13,075
Cash and cash equivalents	19	1,814,101	1,728,211
Non-current time deposits	19	160,000	—
		1,999,009	1,746,497

Company

	Notes	2011 RMB'000	2010 RMB'000
Due from subsidiaries	15	55,951	180
Financial assets included in prepayments, deposits and other receivables	18	311	723
Cash and cash equivalents	19	951,638	1,369,430
		1,007,900	1,370,333

32. FINANCIAL INSTRUMENTS (Continued)

Financial liabilities at amortised cost

Group

	Notes	2011 RMB'000	2010 RMB'000
Trade payables	20	**67,200**	65,833
Financial liabilities included in other payables and accruals	21	**87,676**	52,850
		154,876	118,683

Company

	Notes	2011 RMB'000	2010 RMB'000
Trade payables	20	**26,915**	—
Due to subsidiaries	15	**27,676**	26,132
Financial liabilities included in other payables and accruals	21	**4,438**	9,579
		59,029	35,711

The carrying amounts of the Group's financial instruments recorded at amortised cost in the financial statements approximated to their fair values as at the end of the reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- The fair values of the trade and bills receivables, other receivables and deposits, cash and cash equivalents, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

- The fair values of the non-current time deposits have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables and deposits and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of the directors reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the unit's functional currencies. Approximately 87.4% (2010: 78.7%) of the Group's purchases were denominated in currencies other than the functional currencies of the operating units making the purchase. The Group also has certain bank balances denominated in HK$ and United States dollars (the "USD"). The Group did not enter into any foreign exchange forward contracts to hedge against foreign exchange fluctuations. However, the Group makes rolling forecasts on its foreign currency expenses and arranges payments, so as to alleviate the impact on its business due to exchange rate fluctuations.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD, Euro and HK$ exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in USD/Euro/HK$ rate	Increase/ (decrease) in profit before tax	
		2011	2010
	%	**RMB'000**	RMB'000
If the RMB weakens against the USD	5	**1,340**	(484)
If the RMB strengthens against the USD	(5)	**(1,340)**	484
If the RMB weakens against the Euro	5	**(1,082)**	(1,337)
If the RMB strengthens against the Euro	(5)	**1,082**	1,337
If the RMB weakens against the HK$	5	**26**	51,490
If the RMB strengthens against the HK$	(5)	**(26)**	(51,490)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The credit risk of the Group's other financial assets, which comprise other receivables and deposits, cash and cash equivalents and time deposits arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objectives are to maintain sufficient cash and cash equivalents and to have available funding through an adequate amount of committed credit facilities to meet its commitments.

The Group's cash and bank balances are placed with reputable financial institutions.

As at 31 December 2011 and 2010, all the Group's financial liabilities would be due within 12 months. Their contractual amounts to be paid approximate to their carrying amounts as shown in the consolidated statement of financial position.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a healthy liabilities to assets ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

The Group monitors capital using the liabilities to assets ratio, which is total liabilities divided by total assets. The liabilities to assets ratios as at the end of the reporting periods were as follows:

	2011 **RMB'000**	2010 RMB'000
Total liabilities	**460,506**	242,107
Total assets	**2,438,066**	1,901,999
Liabilities to assets ratio	**19%**	13%

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2012.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011 RMB'000**
RESULTS					
REVENUE	188,297	325,540	558,969	1,233,560	**2,189,034**
Gross profit	137,872	236,874	395,953	877,173	**1,456,127**
PROFIT BEFORE TAX	27,402	44,606	118,153	334,063	**713,907**
Income tax expense	(9,916)	(9,444)	(9,836)	(68,380)	**(186,556)**
PROFIT FOR THE YEAR	17,486	35,162	108,317	265,683	**527,351**
Attributable to:					
Owners of the parent	17,487	35,066	108,317	265,683	**527,351**
Non-controlling interests	(1)	96	—	—	**—**
	17,486	35,162	108,317	265,683	**527,351**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB)					
For profit for the year					
— Basic	0.04	0.08	0.24	0.58	**0.88**
— Diluted	0.04	0.08	0.24	0.58	**0.86**

FIVE YEAR FINANCIAL SUMMARY

	As of 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011** **RMB'000**
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Non-current assets	15,487	27,869	29,755	39,857	**287,701**
Current assets	88,265	147,429	253,664	1,862,142	**2,150,365**
Current liabilities	(63,494)	(86,625)	(112,862)	(236,347)	**(415,054)**
Non-current liabilities	—	—	—	(5,760)	**(45,452)**
Net assets	40,258	88,673	170,557	1,659,892	**1,977,560**
Attributable to:					
Owners of the parent	40,235	88,422	170,557	1,659,892	**1,977,560**
Non-controlling interests	23	251	—	—	**—**
	40,258	88,673	170,557	1,659,892	**1,977,560**

Note: The Company was incorporated in the Cayman Islands on 30 April 2010 and became the holding company of the Group on 16 November 2010. The results and assets and liabilities for 2007, 2008 and 2009 have been prepared on a combined basis as if the current group structure had been in existence throughout those years.

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