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 2012
二零一二年年報

Contents


BIOSTIME
合生元
BM care
婴幼儿纸尿裤
PREMIUM BABY DIAPERS
42片

聪明IQ·爱心EQ·活力PQ

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

Mr. Luo Fei
Ms. Wong Tak Yee

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.biostime.com.cn

PRINCIPAL BANKER

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

AUDITORS

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

LEGAL ADVISOR

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

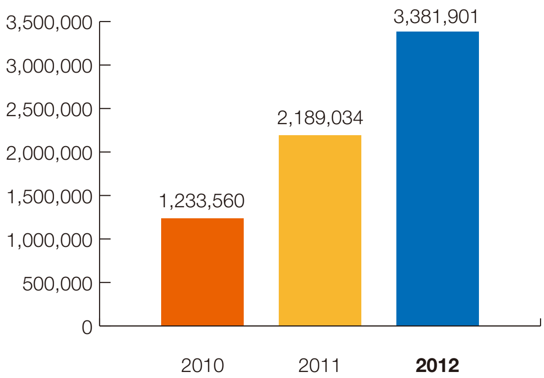
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2012	2011	
	RMB'000	RMB'000	% of change
Revenue	**3,381,901**	2,189,034	54.5%
Gross profit	**2,228,946**	1,456,127	53.1%
Profit before tax	**1,050,573**	713,907	47.2%
Profit for the year	**743,106**	527,351	40.9%
Earnings per share			
– Basic	**RMB1.24**	RMB0.88	40.9%
– Diluted	**RMB1.22**	RMB0.86	41.9%

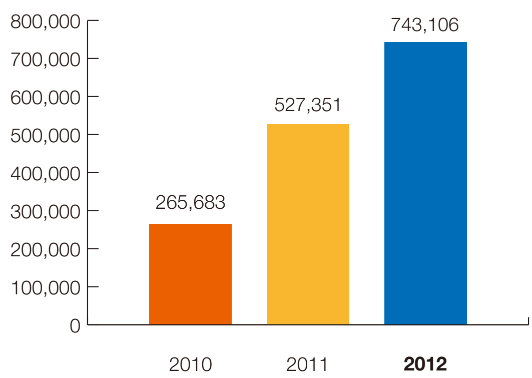
Revenue

(RMB'000)



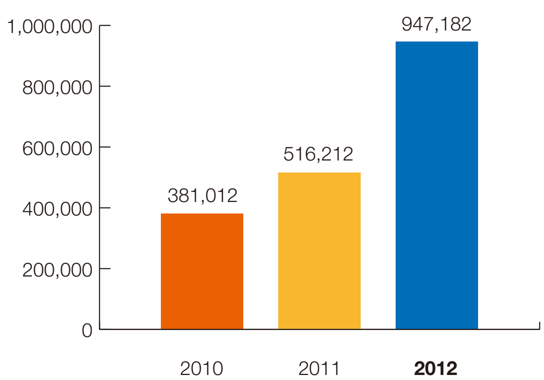
Profit for the year

(RMB'000)



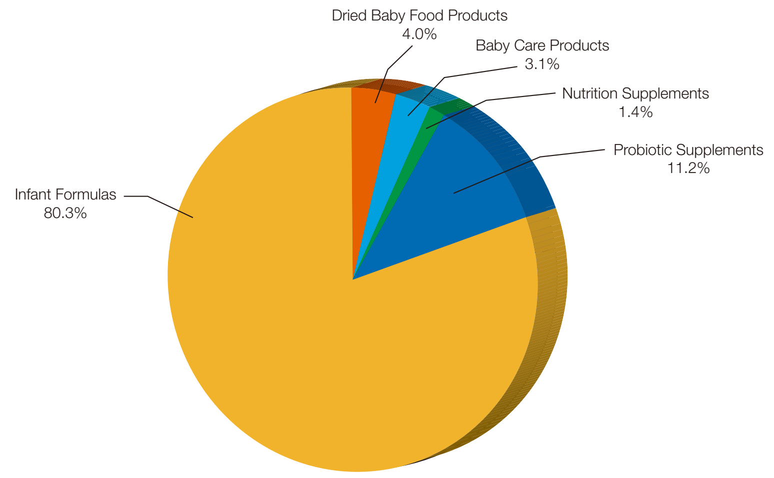
Net cash flows from operating activities

(RMB'000)

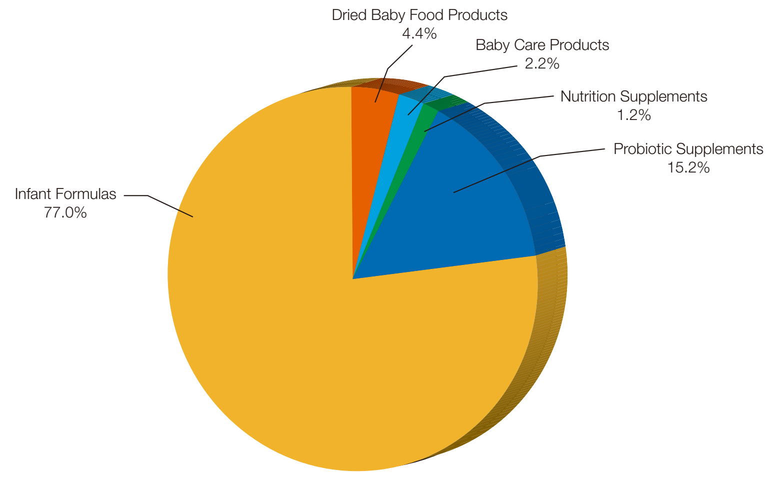


REVENUE BY PRODUCT SEGMENT

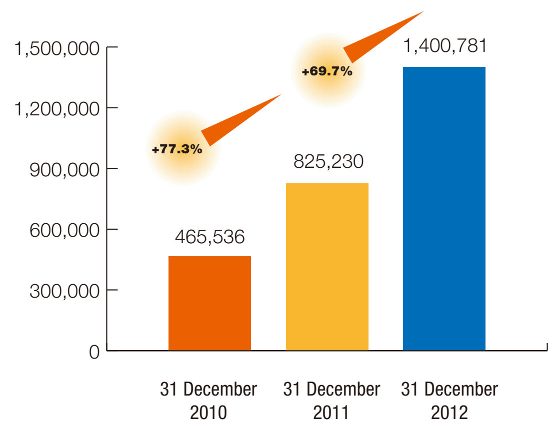
Year ended 31 December 2012



Year ended 31 December 2011



NO. OF MAMA100 ACTIVE MEMBERS



CHAIRMAN'S STATEMENT

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 2012, which corresponds to the third year since our Initial Public Offering on the Main Board of The Stock Exchange of Hong Kong Limited on 17 December 2010.

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, young children and pregnant mothers in China which are increasingly well received among mother consumers. Thanks to the booming baby products market in China supported by a solid demand from Chinese mothers for various baby products, the Group recorded a consistent and fast growth of its revenue at a CAGR of 65.7% from 2010 to 2012. In 2012, the Group continued to keep this momentum and delivered another year of notably high revenue and net profit, accomplishing a total revenue of RMB3,381.9 million with net profit of RMB743.1 million, increasing by 54.5% and 40.9%, respectively, as compared with 2011.

During the year 2012, the sales revenue of infant formula business sustained a strong growth of 61.2%, which amounted to RMB2,715.3 million, contributing to 80.3% of the Group's total revenue. The supreme-tier[1] and high-tier[2] segments of the Group's infant formula business grew at the rates of 42.1% and 77.4%, respectively, maintaining fast development despite of the fierce competition. Notably, the high-tier segment made up 59.4% of the Group's infant formula business in 2012 and became the more significant growth contributor to the Group's infant formula business. The Group will continue to grow in both the supreme-tier and high-tier infant formula segments.

Probiotic is the second biggest business segment of the Group with the highest gross margin among the product portfolio. During the year 2012, the sales revenue of probiotic business recorded 14.2% growth as compared with 2011, contributing to 11.2% of the Group's total revenue. In the second half of 2012, the Group has taken a series of actions to sustain the probiotic business growth momentum. They included formula improvement, performance enhancement of the sales team, and a range of marketing support services to mark the 10th anniversary of the business line.

Baby care products, under the BMcare™ brand, experienced a year of breakthrough in 2012. Sales revenue of baby care products reached RMB106.0 million, rapidly growing at 121.5%, as compared with 2011. The Group will continue its strategy of multi-category expansion to drive business growth.

In October 2012, the Group expanded its product portfolio by introducing to the Chinese market three new product lines, namely Pre-schooler Formula, Natural Baby Cereal and BMcare Essential & Natural Series. These products have further extended the life cycle of the Group's product portfolio and increased consumer spending.

Notes:

(1) Refers to infant formulas priced over RMB300 per can of 900g
(2) Refers to infant formulas priced between RMB200 and RMB300 per can of 900g

BUSINESS REVIEW (Continued)

The Group consistently invested in its brands to increase brand recognition and enhance brand equity. In 2012, the Group invested more on advertising. Advertising expenses increased by 10.4% from the year 2011. Included in the expenses was a notable increase in advertising spending in the new media channels, such as internet TV, search engine and online social media.

Mama100 Membership Platform continued to play a critical role in the Group's success. Mama100 Membership Platform is an integrated database marketing platform which provides various value-added services for members and member retail outlets, including professional magazine, nursing consulting hotline, the mama100.com website and membership points accumulation programme and training programme, which enable the Group to enhance cross-selling and consumer loyalty and support a series of database marketing activities to achieve higher sales and promotion efficiency. As at 31 December 2012, the numbers of Mama100 active members increased to 1,400,781 at the rate of 69.7% as compared with 2011. The sales generated by Mama100 active members contributed to about 84.7% of the Group's total revenue. In 2012, on a monthly average basis, Mama100 call centre transacted 226,291 calls and Mama100 "Children" magazine issued 335,650 copies, increasing by 22.2% and 81.1%, respectively, as compared with 2011.

Sales and distribution channels expansion under the control of real-time distribution management system is an important business growth driver for the Group. During 2012, the Group registered increases of the number of VIP baby specialty stores to 10,404, Mama100 Member's Zones in pharmacies to 744, and retail sales organizations to 4,174, or by 54.7%, 36.5% and 40.6%, respectively, as compared with 2011. Despite the rapid expansion of the sales channels and retail outlets, the Group has continued to select new retail stores based on stringent criteria and to track the inventory and sales of its products at the distributors' level to monitor retail prices, avoid channel conflict and stuffing, enabling the Group to maintain a sustainable business growth through a sophisticated real-time distribution management system. According to the real-time distribution management system, the inventory turnover days of the Group's distributors[1] is about 29 days on average.

In June 2012, the Group signed a 10-Year Financing and Supply Agreement with Arla Foods Amba ("Arla Foods") at Arinco, Arla Foods's largest infant formula production facility based in Denmark, which is equipped with full formula spray-dry technology and uses Arla's own Danish milk. This additional supply source will enable the Group to ensure a sustainable, stable and quality supply of its infant formula powders. At the same time, the Group has signed a renewed infant formulas manufacturing agreement with La Laiterie de Montaigu, a renowned French dairy manufacturer, for a term of three years from 1 January 2014 to 31 December 2016. Currently, the Group has three infant formula suppliers in European countries for premium quality infant formula products. Looking forward, the Group will strive to deepen cooperation with these foreign quality suppliers, cater to the Chinese consumers' needs for high-quality and safe infant formula products, and sustain the stable growth of the infant formula business.

While developing its procurement capacity and diversifying infant formula suppliers, the Group remained focused on maintaining the highest quality standards by only using full-formulation spray drying technique and placing quality and safety of its products in first priority by multilayer quality control and assurance. In February 2012, the Group opened a laboratory facility in France, which involves in infant formulas quality control steps of supplier manufacturing process and inspects product quality prior to shipping to China.

Note:

(1) The inventory refers to the products owned by the distributors under the brand name of Biostime or BMcare.

BUSINESS REVIEW (Continued)

Attracting, retaining and engaging the best talent are all critical to the Group's continuous growth. In order to support this rapid growth, the Group has been steadily increasing the investment in developing and retaining its right talent, offering competitive compensation, various training and education opportunities. Also, since it went public, the Group has gradually developed and implemented an incentive system to attract and retain talented staff. In 2011 and 2012, on top of the existing Pre-IPO Share Option Scheme and the Share Option Scheme, the Group paid a total of RMB58.8 million to the trustee for the purchase of ordinary shares of the Company under the Share Award Scheme. In November 2012, the Group was named the "2012 Best Employer" by *Guangzhou Daily*, one of the most popular media in southern China.

To conclude, the Group believes that it is able to drive and sustain its growth because of its unique business model combined with a series of key growth drivers:

- A strong brand to support the success of high-quality products and market development;
- A sophisticated Mama100 Membership Programme with innovative database marketing strategies;
- An effective multi-channel sales model under the control of the real-time distribution management system;
- High-quality products and a consumer-oriented product innovation;
- A stringent quality assurance and control system;
- An efficient and passionate organization to support rapid expansion of business.

PROSPECTS

Looking forward into 2013, the Group expects the increase in babies born will continue in China while the baby product market will continue to benefit from the baby boom in the Chinese Year of Dragon in 2012. The Group is therefore confident to further capture tremendous opportunities in China's fast growing market of premium pediatric nutrition and baby care products.

Channel Expansion and Brand Building

The Group insists on its channel management model and imposes strict criteria in selecting retail store partners, thus resulting in a lower weighted distribution rate of the Group than its major competitors. This suggested more rooms for further expansion of the Group's distribution network. In view of such opportunities, the Group will continue to increase penetration into low-tier cities by consolidating distribution channels, which consist of baby specialty stores, retail sales organizations and pharmacies. By the end of 2013, the Group targets to increase the amount of its VIP baby specialty stores to 13,000, Mama100 Member's Zones in pharmacies to 1,500 and retail sales organizations to 5,000. The Group also intends to recruit more new Mama100 members while maintaining the existing high-end membership base, targeting to own about 2 million Mama100 active members in two years.

The way consumers obtain information is changing quickly and dramatically with the rapid development of the internet and the emergence of new media. To meet the need of consumers and sustain the Group's premium brand image, the Group will continue to invest in brand building efforts through its well-established multi-channel marketing platform, which consists of CCTV and 31 provincial TV stations, internet TV and search engines, new social networking platforms such as Weibo and WeChat, mobile terminals, parenting magazines and in-store displays.

PROSPECTS (Continued)

New Initiatives

The Group realizes the diversification of high-end consumers' needs in selecting infant formulas. In order to satisfy the different needs, the Group has decided to launch new series of infant formulas in 2013 for the premium market segment.

Most of the current products in the Group's probiotic category are functional food. In order to further leverage the well-known brand equity and capture the business opportunity of probiotic in food market, the Group has decided to launch a new premium food-class probiotic product in 2013. This new product will complement the Group's current probiotic product portfolio, increase distribution rate of the probiotic category and fulfill the diversified needs of high-end consumers.

Member Services

The Group is always keen to understand and fulfill more members' needs in more parts of childcare more completely. Through Mama100 platform, the Group receives huge volume of member's purchasing data and interaction information. After analyzing the data, the Group will design and provide better member services to improve member satisfaction of the brand and the Group.

During the past few years, mobile application has become an important and easy way for consumers to obtain information and knowledge. In 2012, the Group introduced the first time a mobile app to its Mama100 members, enabling them to obtain information about parenting, make inquiries and redeem points through the app. Based on the feedbacks from its members and their hopes for placing orders and settling the payment directly on the app, the Group is currently planning, together with the current retail outlet partners, to build up an Online-to-Offline business model by integrating online ordering platform and offline logistic resource of retail outlets.

In 2013, the Group will accelerate the mobile software upgrade and cooperate with third party payment platform to install its payment system into Mama100 points POS machine, enabling members to place orders online, settle payment via debit/credit cards and accumulate or redeem points on the same POS machine. On the other hand, this can strengthen the collaboration with value-chain partners and create additional benefits for retail outlets by introducing new sales through the online platform and improving operation efficiency of POS machine.

Scientific parenting concepts, methods, interaction tools and a nutrition-balanced pediatric diet are an important and inseparable approach for parents to raise a physically, intellectually and emotionally healthy baby. The Group has received continuous feedback from members that they need professional and scientific guidance and services about baby and toddler's early education and psychological care. Through collaboration and joint-development with world-renowned experts and leading international organizations in Europe and the US specialized in neuroscience and children mental health, the Group will launch a parenting education brand – "Parenting Power" – to provide a comprehensive educational programme to cover both psychological care and physical development of babies and toddlers. As a key milestone of the development of Parenting Power, the Group announced, in November 2012, the publication of a special Chinese edition of the popular book *What Every Parent Needs to Know*, written by Dr. Margot Sunderland. This internationally acclaimed book, which won First Prize in the British Medical Association Medical Book Awards 2007 Popular Medicine Section, is the results of over ten years research on the long-term effects of parent-child interaction and provides parents with fundamental parenting principles and methods on the basis of neuroscience. In the coming years, the Group will continue to launch educational programmes and related tutorial materials to fulfill the emerging needs of parents.

PROSPECTS (Continued)

R&D and Quality Management

Besides raw milk sources, other formula ingredients and manufacturing engineering technologies are also very important factors in producing premium-quality infant formulas. The Group has been working with European infant formula suppliers, using European raw milk sources and full formula spray-dry technology, to develop and manufacture high-quality infant formulas. The Group will continue its joint-development strategy to provide Chinese consumers with safe and premium infant formulas imported with original packaging.

As a long-term fundamental of the Group's R&D and Quality Management capability, the Group has started the construction of the Guangzhou R&D and Quality Analysis Centre in June 2012, which is scheduled to complete at the end of 2014. The Group has also built a new R&D team in Europe to focus on infant formula processing technology to improve product quality and develop innovative products. To continuously provide science-based products and services dedicated to baby development, a scientific institute – "Biostime Children Nutrition, Care and Psychology Behavior Institute" – will be operational in 2013, collaborating with third-party research organizations and top scientists in the field of pediatric nutrition and child psychology to conduct joint research, clinical studies and scientific consultancy.

Business Model Innovation

Mama100, as an integrated marketing platform, provides the Group's management with various kinds of market data in huge volume from internal and external resources, such as member data, channel data and retail outlet data. Leveraging on this comprehensive database, the Group can conduct precision data analysis in every aspect of business operation to support decision-making activities. The Group's business model design and innovation are largely related to member database development and the database analysis and application capability.

With the innovation of mobile terminal, cloud storage and data mining analytical tools, Big Database Marketing is gradually changing from a conceptual idea to a feasible action plan. The technology available today enables the Group to develop the Mama100 platform to gain a more comprehensive record of member purchasing behaviour, parenting information and individual preferences when the Group is interacting with its members, generating real-time market intelligence. This ability will eventually turn the business model into what is called one-to-one precision marketing or personalization, through the sophisticated member database analysis.

CHALLENGES

In 2013, global inflation will continue to pose challenges to the Group through higher costs of raw material. To cope with this, the Group will strengthen its supply chain management, increase operational efficiency and leverage economies of scale to mitigate the risk and maintain profitability.

Competition will also intensified as the thriving consumer market will continue to attract new entrants into the high-end pediatric nutritional and baby care market in the future. However, with its market know how and unique business model, the Group is confident to leverage its core competencies and achieve success in 2013.

DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board of Directors is pleased to recommend the payment of a final dividend of HK$0.39 per ordinary share and a special dividend of HK$0.46 per ordinary share for the year ended 31 December 2012. Taking into account the interim dividend of HK$0.23 per ordinary share in respect of the six months ended 30 June 2012 paid in September 2012, the annual dividend will amount to HK$1.08 per ordinary share, accounting for approximately 70.8% of profit for the year ended 31 December 2012.

SOCIAL RESPONSIBILITY

Co-operating with the Chinese Red Cross Foundation, the Group has established the "Biostime China Foundation for Mother and Child" (the "Foundation") in 2007. The Group donates RMB0.1 to the Foundation for every unit sold. For the year of 2012, RMB2.7 million was raised for the Foundation, which has accumulated a total of RMB6.1 million as of year-end 2012, enabling the Foundation to help 183 children suffering from serious illnesses since its establishment. The first five years of cooperation ended in the year 2012 and the Group has further extended this cooperation for another five years starting from 2013.

In 2011, the Group co-operated with the Women and Infant Health Centre under China Centre for Disease Control and Prevention to establish the "Biostime Mother and Infant Nutrition and Health Research Fund" (the "Fund"), in order to support researches on the health and well-being of women and infants, including disease prevention and control. The Group pledges to donate not less than RMB1.0 million for the Fund every year for three consecutive years. In 2012, the Group donated a total of RMB1.0 million to the Fund.

ACKNOWLEDGEMENTS

The Chinese Year of the Dragon in 2012 represented a year full of opportunities. The Group did its best to deliver results during the year. I am confident that 2013 will be another excellent year of growth for the Group, supported by our highly dedicated employees. It is my great honour to work with such outstanding people and I would like to thank them for all their remarkable contributions to the Group. At the same time, I would like to take this opportunity to express my gratitude and thanks to all our shareholders, the Mama100 members, retailers, distributors and suppliers for their continuous support to the growth of our business.

Luo Fei
Chairman

Hong Kong, 19 March 2013

SUMMARY OF 2012 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		
	2012	2011	
	RMB'000	RMB'000	% of change
Revenue	**3,381,901**	2,189,034	54.5%
Gross profit	**2,228,946**	1,456,127	53.1%
Selling and distribution costs	**1,077,721**	708,604	52.1%
Administrative expenses	**116,871**	82,041	42.5%
Profit before tax	**1,050,573**	713,907	47.2%
Profit for the year	**743,106**	527,351	40.9%
Operating profit for the year*	**697,578**	459,151	51.9%

* 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 asset, currency exchange, donation and other atypical gains or losses.

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		
	2012	2011	
	RMB'000	RMB'000	% of change
Net cash flows from operating activities	**947,182**	516,212	83.5%
Net cash flows used in investing activities*	**(1,850,498)**	(529,228)	249.7%
Net cash flows used in financing activities	**(191,651)**	(168,846)	13.5%
Cash and cash equivalents and time deposit at end of year	**2,611,128**	1,974,101	32.3%

* For the year ended 31 December 2012, net cash flows used in investing activities amounted to RMB1,850.5 million, including the increase in time deposits of RMB1,726.9 million.

RESULTS OF OPERATION

Revenue

During the year ended 31 December 2012, revenue increased by 54.5% to RMB3,381.9 million as compared with 2011, because of the continuous strong growth of sales generated from infant formulas and the double-digit growth of revenue generated from probiotic supplements. The following table sets forth the Group's revenue by product segment for the years indicated:

	Year ended 31 December		
	2012	2011	
	RMB'000	RMB'000	% of growth
Probiotic supplements	**379,203**	331,962	14.2%
Infant formulas	**2,715,291**	1,684,655	61.2%
Dried baby food products	**134,765**	97,126	38.8%
Baby care products	**105,989**	47,845	121.5%
Nutrition supplements	**46,653**	27,446	70.0%
Total	**3,381,901**	2,189,034	54.5%

RESULTS OF OPERATION (Continued)

Revenue (Continued)

Probiotic supplements

Revenue of probiotic supplements increased by 14.2% from RMB332.0 million in 2011 to RMB379.2 million in 2012. The double-digit growth was mainly due to the increase in sales volume, formulas improvement, performance enhancement of the sales team, and a range of marketing support services to mark the 10th anniversary of the business line.

Infant formulas

Revenue of infant formulas increased by 61.2% to RMB2,715.3 million in 2012 compared with 2011, accounting for 80.3% of the Group's total revenue. The increase was mainly due to the increased sales volume, which was primarily driven by the increase in the number of active Mama100 members, ever-growing market reputation and the expansion of distribution channel. The revenue of high-tier and supreme-tier infant formulas increased by 77.4% and 42.1%, respectively, in 2012 compared with 2011. The high-tier segment made up 59.4% of the Group's infant formulas business in 2012 and became the more significant growth contributor to the Group's infant formulas business. The Group will continue to grow in both the supreme-tier and high-tier infant formula segments.

Dried baby food products

Revenue of dried baby food products increased by 38.8% to RMB134.8 million in 2012 compared with 2011. The increase was mainly attributable to the continuous growth of revenue generated from organic baby cereal products and the newly introduced natural baby cereal products in October 2012.

Baby care products

Attributing to the precise database marketing and cross-selling strategy, revenue of baby care products increased by 121.5% to RMB106.0 million in 2012 compared with 2011. The increase was also attributable to the newly launched BMcare Essential & Natural series in 2012.

Nutrition supplements

In September 2011, the Group established the nutrition supplements business by introducing two new series of products, milk calcium chewable tablets and DHA chews/soft capsules for children and mothers. Revenue of nutrition supplements increased by 70.0% from RMB27.4 million in 2011 to RMB46.7 million in 2012, accounting for 1.4% of the Group's total revenue.

Gross profit and gross profit margin

Gross profit increased by 53.1% from RMB1,456.1 million in 2011 to RMB2,229.0 million in 2012, which was in line with the increase in revenue. Gross profit margin decreased slightly from 66.5% in 2011 to 65.9% in 2012, mainly due to the product mix impact and higher purchase prices of infant formulas charged by the supplier, while partially offset by the exchange gain from the depreciation of Euro. The share of high-tier infant formulas in infant formula's sales increased from 54.0% in 2011 to 59.4% in 2012, while high-tier infant formulas has a lower gross profit margin than that of supreme-tier infant formulas. Moreover, the portion of revenue derived from infant formulas, which has a lower gross profit margin than that of probiotic supplements, increased from 77.0% in 2011 to 80.3% in 2012.

Other income and gains

During the year ended 31 December 2012, other income and gains amounted to RMB56.9 million, representing a 20.7% decrease compared with the year ended 31 December 2011. The decrease was primarily due to the net foreign exchange loss in 2012 instead of the net foreign exchange gain in 2011, while partially offset by the increase in interest income.

RESULTS OF OPERATION (Continued)

Selling and distribution costs

Owing to the increase in investment in consumer communication and brand building, and the amortization expense under the Share Award Scheme, selling and distribution costs increased by 52.1% from RMB708.6 million in 2011 to RMB1,077.7 million in 2012. Attributing to the effective implementation of database marketing activities through Mama100 Membership Program and improvement of sales team dedication, selling and distribution costs as a percentage of revenue decreased from 32.4% in 2011 to 31.9% in 2012.

Administrative expenses

In order to better support the business growth and solidify the Group's infrastructure, the Group increased headcount of managerial employees and training expenses. Administrative expenses increased by 42.5% from RMB82.0 million in 2011 to RMB116.9 million in 2012. Due to the Group's effective management structure and enhanced economies of scale, administrative expenses as a percentage of revenue decreased from 3.7% in 2011 to 3.5% in 2012.

Other expenses

For the year ended 31 December 2012, other expenses amounted to RMB38.6 million, representing a 65.5% increase compared with the year ended 31 December 2011. Other expenses mainly consisted of R&D expenses, net foreign exchange loss and others. The increase was primarily due to the growth of R&D expenses and net foreign exchange loss. The R&D expenses increased by 37.6% to RMB27.2 million in 2012 compared with 2011, resulting from the increased joint development expenses and trial run costs with the Group's suppliers.

Net foreign exchange loss of RMB7.2 million was recorded in 2012, while a net foreign exchange gain of RMB52.8 million was recorded in 2011. The net foreign exchange loss was primarily derived from the depreciation of the Renminbi and Euro against the Hong Kong dollar relating to the Company's bank deposits denominated in Renminbi and Euro. At the end of the reporting period, the deposits denominated in Renminbi and Euro were translated to Hong Kong dollar, the functional currency of the Company, using the closing exchange rate, and the exchange differences shall be recognized in profit or loss in the period in which they arise.

Income tax expenses

The effective income tax rate increased from 26.1% in 2011 to 29.3% in 2012. The increase was mainly due to i) the impact of amortization expenses under the Share Award Scheme by approximately 1.1%, which was subject to income tax under the existing PRC tax rules 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 12.5% in 2012. In line with the increase in the Group's profit before tax, income tax expense increased by 64.8% from RMB186.6 million in 2011 to RMB307.5 million in 2012.

Profit before tax

2012 was a milestone year for the Group as the Group's profit before tax had reached over RMB1 billion, resulting from the effective control of operating expenses. Profit before tax up to RMB1,050.6 million in 2012, increased by 47.2% from RMB713.9 million in 2011.

LIQUIDITY AND CAPITAL RESOURCES

Free cash flow productivity

Free cash flow is defined as operating cash flow less capital spending. Free cash flow productivity is defined as the ratio of free cash flow to profit for the year. The Group's free cash flow productivity increased from 90.5% in 2011 to 122.2% in 2012. This strong free cash flow productivity allows the Group to maintain excellent credit rating and to have the flexibility to invest in business.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Operating activities

For the year ended 31 December 2012, the Group had net cash generated from operating activities of RMB947.2 million, consisting of cash generated from operations of RMB1,191.8 million, partially offset by income tax paid of RMB244.6 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB1,077.1 million before working capital adjustments and net positive changes in working capital of RMB114.7 million.

Investing activities

For the year ended 31 December 2012, net cash flows used in investing activities amounted to RMB1,850.5 million. The Group's net cash outflows for investing activities mainly consisted of (i) the increase in time deposits of RMB1,726.9 million, (ii) the increase in financing to suppliers of RMB123.3 million, (iii) purchase of property, equipment and intangible assets of RMB39.4 million, which primarily related to acquisitions of computers, coding machines, vehicles and computer software for business use and (iv) partially offset by interest received from the matured time deposits of RMB29.3 million.

Financing activities

For the year ended 31 December 2012, net cash used in financing activities amounted to RMB191.7 million, primarily reflecting the cash outflow from financing activities of (i) RMB404.0 million for the distribution of final and special dividends for the year ended 31 December 2011 and interim dividend for the six months ended 30 June 2012, and (ii) provision of RMB56.8 million to the trustee for the purchase of ordinary shares of the Company under the Share Award Scheme. The above cash outflow was partially offset by the cash inflow of RMB270.5 million of proceeds from bank loans.

Cash and bank balances

As of 31 December 2012, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,669.1 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB942.0 million, the Group's cash and bank balances amounted to RMB2,611.1 million as of 31 December 2012.

Inventories

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Raw materials	**185,647**	234,658
Raw materials in transit	**277,425**	18,494
Work in progress	**2,486**	1,175
Finished goods	**57,709**	43,060
Total	**523,267**	297,387

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

Notes:

(1) Entry-Exit Inspection and Quarantine Bureau (出入境檢驗檢疫局)

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

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Working capital cycle

The Group's cash cycle increased from 68 days in 2011 to 79 days in 2012, which was within the management's expectation.

The average turnover days of trade and bills receivables maintained at 1 day for the years ended 31 December 2012 and 2011.

The average turnover days of inventories increased from 100 days for the year ended 31 December 2011 to 130 days for the year ended 31 December 2012, primarily because the Group stored up more inventories to satisfy the Group's anticipated sales growth, particularly for the infant formulas. On the other hand, the CIQ under AQSIQ had stricter quality inspection procedures for imported goods, and it took about two more weeks to obtain the sanitary certification. Taking no account of the raw materials in transit, the average turnover days of inventories decreased from 96 days in 2011 to 83 days in 2012.

The average turnover days of trade payables increased from 33 days in 2011 to 52 days in 2012, which was mainly due to management of time of payment.

USE OF PROCEEDS

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

The use of the net proceeds from the global offering up to 31 December 2012 was as follows:

	Available to utilize HK$ million	Utilized as at 31 December 2012 HK$ million	% of available
Enhancing and reinforcing the brand recognition and brand image	558.5	352.1	63.0%
Expanding business by cooperating with upstream suppliers	319.1	158.0	49.5%
Expanding and developing the sales distribution network and retail channels	239.3	178.9	74.8%
Investing in research and development and expanding production infrastructure and warehouses	239.3	33.3	13.9%
Upgrading the information technology system	79.8	30.8	38.6%
Working capital and other general corporate purposes	159.6	79.8	50.0%
	1,595.6	832.9	52.2%

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

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

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's corporate governance practices are based on the principles and code provisions as set out in the Code on Corporate Governance Practices (the "Old CG Code"), which was revised and renamed as Corporate Governance Code (the "New CG Code") on 1 April 2012, contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). For the purpose of complying with the New CG Code, the Company adopted the revised code provisions contained in the New CG Code on 20 March 2012. Throughout the year ended 31 December 2012, the Company has complied with all the code provisions of the Old CG Code for the period from 1 January 2012 to 19 March 2012 and of the New CG Code for the period from 20 March 2012 to 31 December 2012, save and except for code provision A.2.1 of the Old CG Code and the New CG Code and code provision A.6.7 of the New CG Code, details of which are explained below.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2012.

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 during the year ended 31 December 2012.

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

THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company. All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. 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.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

Board Composition

The Board currently comprises nine members, consisting of two executive Directors, four non-executive Directors and three independent non-executive Directors. The Board has also established three Board committees, namely, the nomination committee (the "Nomination Committee"), the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee"). Directors' biographical details are set out in the section headed "Biography of Directors and Senior Management" on pages 33 to 42 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)*
Ms. Kong Qingjuan *(Chief Operating Officer)*

Non-executive Directors:

Dr. Zhang Wenhui *(Note)*
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

Note: Dr. Zhang Wenhui has been re-designated from an executive Director to a non-executive Director with effect from 25 June 2012 and he has also resigned as the chief technology officer and head of the Quality Assurance Department of the Company with effect from the same date.

THE BOARD (Continued)

Board Composition (Continued)

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

Delegation by the Board

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board 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 have been posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 4 of the Annual Report. 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.

THE BOARD (Continued)

Chairman and Chief Executive Officer

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

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

Joint Company Secretaries

The joint company secretaries of the Company are Ms. Wong Tak Yee of Tricor Services Limited, an external service provider, and Ms. Yang Wenyun who is also the primary contact person at the Company. Details of the biographies of the joint company secretaries are set out in the section headed "Biography of Directors and Senior Management" on pages 33 to 42 of the Annual Report.

The joint company secretaries have undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the year ended 31 December 2012.

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 Board 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 (Continued)

Board Practices of Meetings (Continued)

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 year ended 31 December 2012, the Board held 12 regular meetings. During the regular meetings of the Board held in 2012, the Board reviewed the operation and financial performance and reviewed and approved the annual or interim results.

Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2012

Name of Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Annual General Meeting
Executive Directors					
Mr. Luo Fei *(Note 1)*	12/12	N/A	2/2	7/8	1/1
Ms. Kong Qingjuan	12/12	N/A	N/A	N/A	1/1
Non-executive Directors					
Dr. Zhang Wenhui	12/12	N/A	N/A	N/A	0/1
Mr. Wu Xiong	12/12	N/A	N/A	N/A	0/1
Mr. Luo Yun	12/12	2/2	N/A	N/A	0/1
Mr. Chen Fufang	12/12	N/A	N/A	N/A	0/1
Independent non-executive Directors					
Dr. Ngai Wai Fung *(Note 2)*	12/12	2/2	1/2	7/8	1/1
Mr. Tan Wee Seng *(Note 3)*	12/12	1/2	2/2	8/8	1/1
Professor Xiao Baichun	12/12	N/A	N/A	N/A	0/1
Date of Meeting *(DD/MM/YYYY)*	04/01/2012 20/03/2012 30/03/2012 06/04/2012 01/06/2012 20/06/2012 25/06/2012 03/07/2012 15/08/2012 13/09/2012 29/11/2012 07/12/2012	19/03/2012 14/08/2012	19/03/2012 25/06/2012	04/01/2012 30/03/2012 01/06/2012 25/06/2012 03/07/2012 26/11/2012 29/11/2012 07/12/2012	30/04/2012

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.

Besides the Annual General Meeting ("AGM") held on 30 April 2012, no other general meeting was held during the year ended 31 December 2012.

Apart from the regular Board meetings, the Chairman of the Board held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year ended 31 December 2012.

THE BOARD (Continued)

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 47 of this Annual Report.

Term of Appointment of Non-executive Directors

Each of the non-executive Directors has entered into a letter of appointment with the Company for a specific term. According to their respective letters of appointment, the term of appointment of each of Mr. Wu Xiong, Mr. Chen Fufang and Mr. Luo Yun is 3 years, subject to the approval of re-appointment by the shareholders at an AGM, and the term of appointment of Dr. Zhang Wenhui is 3 years, automatically renewable upon expiration.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of 3 years, automatically renewable upon expiration.

Appointment, Re-election and Removal of Directors

The Company has established formal, considered and transparent procedures for the appointment of Directors.

The Company has adopted the procedures for shareholders to propose a person for election as a Director of the Company. These procedures are available and accessible on the Company's website at www.biostime.com.cn.

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 at an AGM upon retirement pursuant to relevant articles of the Articles of Association.

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.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2012 is set out below:

Remuneration bands	Number of persons
HK$2,000,001 to HK$3,000,000	3
HK$3,000,001 to HK$4,000,000	1
HK$4,000,001 to HK$5,000,000	4
HK$5,000,001 to HK$6,000,000	3
HK$6,000,001 to HK$7,000,000	1
HK$7,000,001 to HK$8,000,000	1

THE BOARD (Continued)

Remuneration of Directors and Senior Management (Continued)

Further particulars regarding Directors' and chief executive's remuneration and five highest paid employees as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in note 8 to the financial statements.

Continuous Professional Development

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the Directors. Continuing briefing and professional development for Directors are arranged where necessary. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2012, the Company organized a training session conducted by its legal advisor as to Hong Kong laws, Orrick, Herrington & Sutcliffe, for Directors and senior management on new statutory regime on disclosure of inside information as well as directors' duties and responsibilities, which was attended by Mr. Luo Fei, Ms. Kong Qingjuan and Mr. Chen Fufang. Besides, Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun attended other seminars and training sessions arranged by professional institutions or firms in relation to various topics which can refresh their knowledge and skills necessary or helpful for the discharge of their responsibilities. In addition, all Directors, including Dr. Zhang Wenhui, Mr. Wu Xiong and Mr. Luo Yun, read and studied various materials related to their roles, functions and duties as directors.

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 Old CG Code and the New CG Code, and relevant disclosure in the corporate governance report of the annual report of the Company.

During the year ended 31 December 2012, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company Code, Model Code and Employees Written Guidelines, and the Company's compliance with the Old CG Code and the New CG Code and relevant disclosure in this corporate governance report of the annual report of the Company.

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 2012. The Directors' responsibility for preparing the financial statements of the Company for the year ended 31 December 2012 is set out in the Directors' Report on page 56 of the Annual Report.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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, which is reviewed and renewed on an annual basis. The insurance coverage was lately renewed in August 2012.

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 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 two meetings during the year ended 31 December 2012 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and make recommendations to the Board on the re-election and re-appointment and re-designation of Directors 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 2012" above.

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Mr. Luo Fei and Ms. Kong Qingjuan, both executive Directors and Dr. Zhang Wenhui, a non-executive Director, shall retire from office by rotation and being eligible, offer themselves for re-election at the forthcoming AGM to be held on 9 May 2013.

The service terms of some of the non-executive Directors of the Company, namely Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang will expire on 17 December 2013. Pursuant to the respective letters of appointment, they are all eligible for election and re-appointment at the forthcoming AGM to be held on 9 May 2013. The Company will make an announcement on the re-appointment of these non-executive Directors, as soon as the results are known.

NOMINATION COMMITTEE (Continued)

The Nomination Committee recommended the re-election of Mr. Luo Fei, Ms. Kong Qingjuan and Dr. Zhang Wenhui and the re-appointment of Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang at the forthcoming AGM of the Company.

The Company's circular dated 28 March 2013 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 auditors.

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

The Company has adopted a whistleblowing policy for promoting high corporate governance standards and deterring wrongdoings. The policy aims at encouraging and enabling employees of the Group at all levels as well as distributors and suppliers to report to the Audit Committee violations or suspected violations and to raise serious concerns about possible improprieties in matters of financial reporting or other matters of the Group.

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 auditors or external auditors before submission to the Board;

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

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

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 2012 and the annual results for the year ended 31 December 2012, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 and the Annual Report for the year ended 31 December 2012, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

The Audit Committee held two meetings during the year ended 31 December 2012 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 2012" above.

The Audit Committee also met the external auditors twice without the presence of the executive Directors in the year of 2012.

AUDIT COMMITTEE (Continued)

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements of the Company is set out in the Independent Auditors' Report on page 57 of the Annual Report.

Non-audit services by the external auditors 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 auditors. In 2012, the external auditors provided non-audit services mainly in tax advisory and IT security risk assessment services.

The Audit Committee has reviewed the independence and objectivity of the external auditors in 2012 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 auditors at the forthcoming AGM.

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

Type of Services	RMB'000
Audit services	
– Interim review service	700
– Annual audit service	1,600
Non-audit services	
– Tax advisory service	114
– IT security risk assessment service	480
Total	**2,894**

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 adopted revised terms of reference for the Remuneration Committee on 20 March 2012.

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

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.

REMUNERATION COMMITTEE (Continued)

During the year under review, the Remuneration Committee made recommendations to the Board on the grant of share options under the Share Option Scheme adopted by the Company on 25 November 2010, in order to encourage employees of the Group to continue to contribute to the development of the Group in the long run.

The Remuneration Committee also made recommendations to the Board to grant and award the shares of the Company to eligible persons pursuant to the Share Award Scheme adopted by the Company on 28 November 2011, to provide further incentive to employees of the Group on top of share options.

During the year under review, the Remuneration Committee also recommended to the Board to revise non-executive Directors' remuneration so that the non-executive Directors will be entitled to a director's fee with effect from 1 January 2013, so as to acknowledge and encourage their contribution and devotion to the functioning of the Board and business growth of the Group.

The Remuneration Committee held eight meetings during the year ended 31 December 2012 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 2012" above.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and assessment as well as risk management.

The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Group. 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, and to identify and manage potential risks.

The Group seeks to increase risk awareness across its business operations and has put in place policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Group 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 2012 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.

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Group, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The internal audit function is responsible for assessing the Group's internal control system, formulating an impartial opinion on the system, and reporting to the Audit Committee its findings which the chairman of the Audit Committee and the senior management concerned, as well as following up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained with the Group's external auditors so that both are aware of the significant factors which may affect their respective scope of work. Depending on the nature of business and risk exposure of individual business units, the scope of work performed by the internal audit function includes financial and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency reviews.

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 Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. The Chairman of the Board, all executive Directors, non-executive Directors, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the AGMs to meet shareholders and answer their enquiries.

The Board has adopted a shareholders' communication policy to set out the Company's procedures in providing the shareholders with prompt and equal access to information about the Company, in order to enable the shareholders to access the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company.

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.

During the year ended 31 December 2012, the Company participated in 16 investors' conferences and roadshows and more than 600 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
January 2012	UBS Greater China Conference	UBS	Shanghai
March 2012	2011 Annual Report Roadshow	Jefferies CLSA Piper Jaffray	Hong Kong
April 2012	2011 Annual Report Roadshow	HSBC Jefferies	Paris, Frankfurt, London, Edinburgh, New York, Boston, Chicago, San Francisco
June 2012	Ninth Annual China Growth Conference	Piper Jaffray	Hong Kong
June 2012	KGI Taipei Roadshow	KGI	Taipei
August 2012	2012 Interim Report Roadshow	BoA Merrill Lynch HSBC	Hong Kong
August 2012	2012 QDII Roadshow	BoA Merrill Lynch	Beijing, Shanghai
September 2012	OSK-DMG ASEAN & HK Corporate Day 2012	OSK	Hong Kong
September 2012	Jefferies Singapore Roadshow	Jefferies	Singapore

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (Continued)

Date	Event	Organizer	Location
October 2012	HSBC 2nd Annual China Consumption Conference	HSBC	Hong Kong
October 2012	Nomura Presentation	Nomura	Hong Kong
November 2012	2012 China Conference	BoA Merrill Lynch	Beijing
November 2012	2012 Reverse Roadshow – Biostime 2012 Macau Forum of Member Store & New Product Launch Meeting	The Group	Macau
December 2012	Asia Pacific Emerging Corporate Day	Standard Chartered	Hong Kong
December 2012	Citi Greater China Consumer Conference 2012	Citi	Hong Kong
December 2012	2012 Morgan Stanley Dairy Trip	Morgan Stanley	Beijing

The last shareholders' meeting was the AGM held on 30 April 2012 at Gloucester Room I, 3/F, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong for approval of, among others, the general mandates to issue and purchase shares of the Company and the re-election and re-appointment of Directors. Particulars of the major items considered at that AGM are set out in the circular dated 26 March 2012. All proposed ordinary resolutions were passed by way of poll at the AGM.

The forthcoming AGM will be held on 9 May 2013. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

Code provision A.6.7 of the New CG Code stipulates that independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders.

One executive Director, three non-executive Directors and an independent non-executive Director of the Company did not attend the AGM held on 30 April 2012 due to other work commitments. The Company will strengthen its AGM planning process, by giving all Directors sufficient time to arrange their work in advance and providing any necessary support for their presence and participation in the meeting, so as to facilitate all Directors attending the Company's future 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 under review, the Company has not made any changes to its Memorandum and Articles of Association. An updated version of the Company's Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

SHAREHOLDER RIGHTS

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

Pursuant to 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 49, was appointed as an executive Director on 30 April 2010 and is the Chairman and Chief Executive Officer of the Company and the chairman of the Nomination Committee of the Company. He is also a director of our subsidiaries Biostime, Inc. (Guangzhou) ("Biostime Guangzhou"), Biostime (Guangzhou) Health Products Limited ("Biostime Health"), BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou"), Biostime (Guangzhou) Education Management Inc. ("Biostime Education"), Biostime International Investment Limited ("Biostime Investment") and Biostime Hong Kong Limited ("Biostime Hong Kong"). He is primarily responsible for our overall strategies, planning and business development. He has approximately 19 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. 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") 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 53 of this Annual Report.

Ms. Kong Qingjuan (孔慶娟), aged 51, 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 Biostime Health, BMcare Guangzhou, Biostime Guangzhou and Biostime Education. She is also a general manager of the operation centre of Biostime Health. She has approximately 17 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 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 53 of this Annual Report.

NON-EXECUTIVE DIRECTORS

Dr. Zhang Wenhui (張文會), aged 48, was re-designated to a non-executive Director on 25 June 2012. He was an executive Director of the Company from 12 May 2010 to 24 June 2012. He has been an independent director of Stoltze Specialty Processing, LLC in the United States since September 2012. He has almost 17 years of experience in the industry of biotechnology, through teaching in universities and working for several companies of this industry. 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 joined the Group in October 2005 as the chief technology officer of Biostime Guangzhou and then became a general manager of the technology center of Biostime Health in December 2010, primarily responsible for the research and development, product quality control and technology support, and held this position till 24 June 2012. He was also the chief technology officer and head of the Quality Assurance Department of the Company until 24 June 2012 and a director of our subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou until 2 September 2012. 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 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 53 of this Annual Report.

Mr.Wu Xiong (吳雄), aged 57, was appointed as a non-executive Director on 12 May 2010. 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. He was a director of our subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou until 2 September 2012. 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 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 53 of this Annual Report.

NON-EXECUTIVE DIRECTORS (Continued)

Mr. Luo Yun (羅雲), aged 52, was appointed as a non-executive Director on 12 May 2010. He is also a director of our subsidiaries Biostime Guangzhou, Biostime Health, BMcare Guangzhou, Biostime Education, Biostime Investment and Biostime Hong Kong. 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 a company formerly known as Biostime Health and Nutrition (Guangzhou) Limited (now known as Leseil Health and Nutrition (Guangzhou) Limited), where he was responsible for the overall strategies and business development, and he was also a director of this company 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 completed the EMBA course of Fudan University (復旦大學) in Shanghai and was awarded an EMBA degree in 2012. Mr. Luo is the elder brother of Mr. Luo Fei, the Chairman of the Board and one of our executive Directors. He is also a director of our substantial shareholder Biostime Pharmaceuticals 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 53 of this Annual Report.

Mr. Chen Fufang (陳富芳), aged 49, was appointed as a non-executive Director on 12 May 2010. He is also a director of our subsidiaries Biostime Guangzhou, Biostime Health, BMcare Guangzhou, Biostime Education, Biostime Investment and Biostime Hong Kong. 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 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 53 of this Annual Report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ngai Wai Fung (魏偉峰), aged 51, was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Audit Committee of the Company. 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") and the Adjunct Professor of Law of Hong Kong Shue Yan University. He was a director and head of Listing Services of the independently operating corporate services provider (formed by the former corporate and commercial divisions of KPMG and Grant Thornton). 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 of Hong Kong Limited (the "Main Board") 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

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

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.

Dr. Ngai is a fellow 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 and Investment 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 2011. Dr. Ngai has recently been appointed by the Chief Executive of The Hong Kong Special Administrative Region as a member of Work Group on Professional Services under the Economic Development Commission and a member of Qualification and Examination Board of the Hong Kong Institute of Certified Public Accountants.

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 57, was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Remuneration Committee of the Company. Mr. Tan is a professional in value and business management consultancy. He is a non executive director of Xtep International Holdings Limited (Stock Code: 1368), an independent non-executive director of Sa Sa International Holdings Limited (Stock Code: 178) and an independent non-executive director and chairman of audit committee of CIFI Holdings (Group) Company Limited (Stock Code: 884), the shares of all of which are listed on the Main Board of the Stock Exchange, an independent director of ReneSola Ltd (Stock Code: SOL) and an independent director and chairman of audit committee of 7 Days Group Holdings Limited (Stock Code: SVN), the shares of both of which are listed on the NYSE, and a board member and chairman of finance committee of Beijing City International School, an academic institution in Beijing.

Mr. Tan has over 30 years of financial management, corporate finance, merger and acquisition, business management and strategy development experience. He has also held various management and senior management positions in a number of multi-national corporations. From 2003 to 2008, he was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of the Stock Exchange. From 1999 to 2002, he was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. Prior to that, he had served as the managing director of AFE Computer Services Limited, a Reuters subsidiary in Hong Kong which was a company mainly engaged in domestic equity and financial information services, and as director of Infocast Pty Limited, a Reuters subsidiary in Australia and as the regional finance manager of Reuters East Asia. Mr. Tan is a professional accountant and a fellow member of the Chartered Institute of Management Accountants in United Kingdom, and the Hong Kong Institute of Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Professor Xiao Baichun (蕭柏春), aged 65, 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 was named as Fulbright Senior Scholar by US Fulbright Foundation in 2012. 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 44, joined the Group in October 2004 and is the general manager of our sales and marketing center. 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 the general manager of our sales and marketing center 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 37, 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 10 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 59, joined the Group as our chief scientific officer and General Manager of Biostime Pharma (a subsidiary of the Company in France) in October 2010 and was appointed as the chief technology officer of the Company as well as the general manager of the technology center of Biostime Health in June 2012. He is responsible for research and development, product quality control and technology development. He was the scientific consultant of Biostime Guangzhou from 1 March 2008 to 30 September 2010. Dr. Patrice has approximately 30 years of experience in the nutrition products industry. From October 1981 to March 1990, he worked for Gist Brocades SA as a science director in the field of industrial enzymes. From April 1990 to June 1991, he was employed by CPIAA SA, an agro-consulting group, as a manager. From June 1991 to November 1994, he was the strategy and development director of the French subsidiary of Pioneer Hi-Bred in agro-seeds. He also has worked as a director of Silab Sarl in cosmetic ingredients and sales and Business development director of Lallemand SAS Human Nutrition division for the period from February 1995 to October 2007. From March 2008 till now, he is 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 38, 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, including membership marketing, member services, membership platform, member store services and IT management. He had over 10 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). He has also enrolled in the EMBA courses of China Europe International Business School's (中歐國際工商學院) since September 2011.

Ms. Laetitia Garnier (安玉婷), aged 33, 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 35, 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 approximately 9 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 (註冊税務師) 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 35, 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 10 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 completed the EMBA courses of Lingnan (University) College, Sun Yat-Sen University (中山大學嶺南(大學)學院) and was awarded an EMBA degree in December 2012.

Mr. Hu Xiaocheng (胡曉成), aged 36, joined the Group in November 2004 and is our retail sales organization channel 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 retail sales organization channel 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 38, 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 35, is our human resource director and is responsible for the overall human resource affairs. He has approximately 10 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 41, 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 over 10 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.

Mr. Sun Rigao (孫日高), aged 40, joined the Group in May 2008. He is our production plant senior manager and is mainly responsible for production, logistics, equipment and facilities related affairs, as well as various environmental and occupational health and safety issues under PRC laws and regulations, on a regular basis. He has over 10 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 56, 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.

Ms. Yang Wenyun (楊文筠), aged 29, 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 Listing Affairs and Risk Management Department. Ms. Yang started her professional career with the Group and has obtained substantial experience in administration, corporate governance, legal affairs, risk management and public relations over the past seven 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 risk control department. Ms. Yang is now mainly in charge of administrative affairs, listing affairs, legal affairs 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 2012 Interim Report are set out below:

Name of Director	Details of Changes
Luo Fei	1. Appointed as a director of the Company's directly wholly-owned subsidiary Biostime Education on 10 July 2012 2. Appointed as a director of the Company's directly wholly-owned subsidiary Biostime Investment on 14 November 2012 3. Appointed as a director of the Company's indirectly wholly-owned subsidiary Biostime Hong Kong on 21 November 2012
Kong Qingjuan	Appointed as a supervisor of the Company's directly wholly-owned subsidiary Biostime Education on 10 July 2012
Zhang Wenhui	1. Ceased to be a director of the Company's directly wholly-owned subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou on 3 September 2012 2. Appointed as an independent director of Stoltze Specialty Processing, LLC, an independent third party, in the United States on 6 September 2012
Wu Xiong	Ceased to be a director of the Company's directly wholly-owned subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou on 3 September 2012
Luo Yun	1. Appointed as a director of the Company's directly wholly-owned subsidiary Biostime Education on 10 July 2012 2. Appointed as a director of the Company's directly wholly-owned subsidiary Biostime Investment on 14 November 2012 3. Appointed as a director of the Company's indirectly wholly-owned subsidiary Biostime Hong Kong on 21 November 2012
Chen Fufang	1. Appointed as a director of the Company's directly wholly-owned subsidiary Biostime Education on 10 July 2012 2. Appointed as a director of the Company's directly wholly-owned subsidiary Biostime Investment on 14 November 2012 3. Appointed as a director of the Company's indirectly wholly-owned subsidiary Biostime Hong Kong on 21 November 2012
Ngai Wai Fung	1. Appointed as the Adjunct Professor of Law of Hong Kong Shue Yan University on 1 September 2012 2. Appointed by the Chief Executive of The Hong Kong Special Administrative Region as a member of Work Group on Professional Services under the Economic Development Commission on 17 January 2013 3. Appointed as a member of Qualification and Examination Board of the Hong Kong Institute of Certified Public Accountants on 30 January 2013
Tan Wee Seng	Appointed as an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Co. Ltd. (旭輝控股(集團)有限公司) on 9 October 2012, a company listed on the Main Board of the Stock Exchange (Stock Code: 884)
Xiao Baichun	Named as Fulbright Senior Scholar by US Fulbright Foundation in December 2012

The Board hereby presents its report and the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group and is also engaged in overseas purchase. 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 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SUBSIDIARIES

Three new subsidiaries of the Group, namely Biostime Education, Biostime Investment and Biostime Hong Kong were established during the year ended 31 December 2012. Details of the principal subsidiaries of the Group as at 31 December 2012 are set out in note 18 to the financial statements.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2012 are set out in the consolidated financial statements on pages 59 to 120 of the Annual Report. An interim dividend of HK$0.23 per ordinary share in respect of the period ended 30 June 2012 was paid to the shareholders on 13 September 2012. The Directors recommend the payment of a final dividend of HK$0.39 per ordinary share and a special dividend of HK$0.46 per ordinary share for the year ended 31 December 2012 to be paid on or about 27 May 2013 to the shareholders whose names appear on the register of members of the Company on 20 May 2013. 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$0.39 per ordinary share and special dividend of HK$0.46 per ordinary share are subject to approval by the shareholders in the forthcoming AGM of the Company to be held on Thursday, 9 May 2013 (the "2013 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 date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business. Details of the dividends for the year ended 31 December 2012 are set out in note 11 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2013 AGM

The register of members of the Company will be closed from 7 May 2013 to 9 May 2013, 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 2013 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 6 May 2013.

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

The register of members of the Company will be closed from 15 May 2013 to 20 May 2013, 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 14 May 2013.

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 2012 are set out in note 13 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 2012 are set out in note 28 to the financial statements.

RESERVE

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2012 are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, 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 RMB4,318.4 million, of which approximately RMB189.9 million and RMB224.0 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 2012 are set out in note 31 to the financial statements.

CHARITABLE DONATIONS

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 2010, 2011 and 2012, the Group's donations to charity were RMB1.1 million, RMB1.6 million and RMB2.7 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 121 to 122. 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 RMB689.9 million in 2012, accounting for 55.6% of the total purchases of the Group for the year, while the purchases made from the five largest suppliers amounted to RMB1,057.9 million, accounting for 85.3% 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
Ms. Kong Qingjuan

Non-executive Directors

Dr. Zhang Wenhui	*(re-designated from an executive Director on 25 June 2012)*
Mr. Wu Xiong	
Mr. Luo Yun	
Mr. Chen Fufang	

Independent non-executive Directors

Dr. Ngai Wai Fung	*(re-appointed on 30 April 2012)*
Mr. Tan Wee Seng	*(re-appointed on 30 April 2012)*
Professor Xiao Baichun	*(re-appointed on 30 April 2012)*

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Mr. Luo Fei and Ms. Kong Qingjuan, both executive Directors, and Dr. Zhang Wenhui, a non-executive Director, shall retire from office by rotation and being eligible, offer themselves for re-election at the 2013 AGM.

The service terms of three non-executive Directors of the Company, namely Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang, all of whom were appointed on 12 May 2010, will expire on 17 December 2013. Pursuant to the respective appointment letters, they are all eligible for election and re-appointment at the 2013 AGM. The Company will make an announcement on the appointment of these 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 17 December 2010, the date of the listing of the shares of the Company on the Main Board of the Stock Exchange (the "Listing Date") 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. Dr. Zhang Wenhui has terminated his service contract as an executive Director with the Company with effect from 25 June 2012, the date of his re-designation to a non-executive Director.

Three of the non-executive Directors, namely Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang, have respectively 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. Dr. Zhang Wenhui has entered into a letter of appointment as a non-executive Director with the Company for an initial term of three years commencing on 25 June 2012 until terminated by not less than one-month's notice in writing served by either party on the other. According to their respective letters of appointment, the non-executive Directors do not receive any director's fee. However, each of the non-executive Directors entered into a supplementary agreement with the Company on 29 November 2012, pursuant to which each of them is entitled to a director's fee in the amount of RMB120,000 per annum with effect from 1 January 2013.

Each of the independent non-executive Directors has entered into a new letter of appointment for an initial term of three years commencing from 17 December 2012 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 2013 AGM has a service contract 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 2012 are set out in note 8 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 33 to 42 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 2012.

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.

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

As at 31 December 2012, the interests and short positions of the Directors and the chief executives of the Company in the share capital, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Name of Director	Capacity/Nature of interest	Long/Short position	Shares or underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company *(Note 5)*
Luo Fei	Beneficial owner	Long position	621,239 *(Note 1)*	0.1031%
	Beneficial owner	Long position	152,000 *(Note 2)*	0.0252%
Kong Qingjuan	Beneficial owner	Long position	381,558 *(Note 1)*	0.0634%
	Beneficial owner	Long position	75,000 *(Note 3)*	0.0125%
Zhang Wenhui	Beneficial owner	Long position	404,795 *(Note 1)*	0.0672%
Ngai Wai Fung	Beneficial owner	Long position	100,000 *(Note 4)*	0.0166%
Tan Wee Seng	Beneficial owner	Long position	100,000 *(Note 4)*	0.0166%
Xiao Baichun	Beneficial owner	Long position	100,000 *(Note 4)*	0.0166%

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

Note 2: These are the awarded shares (the "Awarded Shares") granted by the Company under the Share Award Scheme, 97,000 of which were granted on 30 March 2012 and the remaining 55,000 of which were granted on 3 July 2012. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" below.

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

Note 4: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 16 December 2011. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" below.

Note 5: As at 31 December 2012, the total number of the issued shares of the Company was 602,294,000.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2012.

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

During the year ended 31 December 2012, based on the Company's instructions, the trustee of the Share Award Scheme (as defined in the section headed "Share Award Scheme" below) has purchased a total of 4,150,000 ordinary shares of the Company on the Stock Exchange at a total consideration of about HK$69,853,000.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

SHARE OPTION SCHEMES

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

Share Option Scheme

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 Share Option 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 shareholders 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% 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% 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 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.

During the year ended 31 December 2012, 768,474 and 1,319,724 Share Options to subscribe for 768,474 and 1,319,724 ordinary shares of HK$0.01 each in the share capital of the Company were granted to grantees (the "Grantees") under the Share Option Scheme on 1 June 2012 and 7 December 2012 (the "Dates of Grant") respectively. The closing prices of the shares immediately before the Dates of Grant were HK$19.48 per share on 31 May 2012 and HK$25.10 per share on 6 December 2012.

Particulars and movements of Share Options under the Share Option Scheme during the year ended 31 December 2012 by category of Grantees were as follows:

			Number of Share Options			
Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share	Outstanding as at 1 January 2012	Granted during the year ended 31 December 2012	Lapsed during the year ended 31 December 2012	Outstanding as at 31 December 2012
Directors						
Dr. Ngai Wai Fung	16/12/2011	HK$12.12	100,000	–	–	100,000
Mr. Tan Wee Seng	16/12/2011	HK$12.12	100,000	–	–	100,000
Prof. Xiao Baichun	16/12/2011	HK$12.12	100,000	–	–	100,000
Sub-total			300,000	–	–	300,000
Other employees	09/06/2011	HK$15.312	904,315	–	(143,425)	760,890
	29/11/2011	HK$11.52	1,237,139	–	(234,691)	1,002,448
	01/06/2012	HK$19.64	–	768,474	(92,204)	676,270
	07/12/2012	HK$24.70	–	1,319,724	–	1,319,724
Total			2,441,454	2,088,198	(470,320)	4,059,332

SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

All Share Options granted since the adoption of the Share Option Scheme till 31 December 2012 shall vest in the Grantees in accordance with the timetable below with a 6-year exercise period (for this purpose, the date or each such date on which the Share Options are to vest being hereinafter referred to as a “Vesting Date”):

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

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 or cancelled during the year ended 31 December 2012.

Pre-IPO Share Option Scheme

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

(a) the subscription price per share for all options (the “Pre-IPO Share 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 options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further options will be granted under the Pre-IPO Share Option Scheme on or after the date of the listing of the shares of the Company on the Main Board of the Stock Exchange (the “Listing Date”);

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

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

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

SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

A total of 11,150,249 shares were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HK$1.00 paid by each grantee. During the year ended 31 December 2012, 18 employees were no longer eligible for Pre-IPO Share Options due to such employees' failure to meet performance target or retirement, and 295,544 Pre-IPO Share Options became lapsed. Particulars and movements of Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the year ended 31 December 2012 by category of grantees are set out below:

	Number of Pre-IPO Share Options		
Category of grantees	**Outstanding as at 1 January 2012**	**Lapsed during the year ended 31 December 2012**	**Outstanding as at 31 December 2012**
Directors			
Mr. Luo Fei	621,239	–	621,239
Ms. Kong Qingjuan	381,558	–	381,558
Dr. Zhang Wenhui	404,795	–	404,795
Sub-total	1,407,592	–	1,407,592
Others			
Senior management members	2,655,665	–	2,655,665
Other employees	6,083,162	(295,544)	5,787,618
Business partner	100,000	–	100,000
Sub-total	8,838,827	(295,544)	8,543,283
Total	10,246,419	(295,544)	9,950,875

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were exercised or cancelled during the year ended 31 December 2012.

SHARE AWARD SCHEME

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

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

SHARE AWARD SCHEME (Continued)

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 share capital of the Company as at the Adoption Date.

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

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

During the year ended 31 December 2012, the Board resolved to pay RMB28,841,276 and RMB30,000,000 to the trustee of the Share Award Scheme on 4 January 2012 and 30 March 2012 respectively, so that the trustee would then purchase and grant relevant shares to certain grantees under the Share Award Scheme.

During the year ended 31 December 2012, based on the Company's instructions, the trustee of the Share Award Scheme has purchased a total of 4,150,000 ordinary shares of the Company on the Stock Exchange at a total consideration of about HK$69,853,000.

Summary of particulars of the shares awarded under the Share Award Scheme (the "Awarded Shares") since the Adoption Date till 31 December 2012 is as follows:

				Number of Awarded Shares		
Date of grant	**Number of Awarded Shares granted**	**Approximate percentage of the Company's share capital as at the Adoption Date**	**Vesting date**	**Vested as at 31 December 2012**	**Forfeited as at 31 December 2012**	**Outstanding (held by the trustee for the Grantees) as at 31 December 2012**
30 March 2012	2,315,882 *(note 1)*	0.38%	30 September 2012	2,276,867	(39,015)	–
3 July 2012	1,734,739 *(note 2)*	0.29%	3 July 2013	–	(21,720)	1,713,019
Total	4,050,621	0.67%		2,276,867	(60,735)	1,713,019

Note 1: Among these Awarded Shares granted, 97,000 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 46,000 Awarded Shares were granted to Ms. Kong Qingjuan, the chief operating officer and an executive Director.

Note 2: Among these Awarded Shares granted, 55,000 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 29,000 Awarded Shares were granted to Ms. Kong Qingjuan, the chief operating officer and an executive Director.

On 8 January 2013, the Board further resolved to pay RMB31,000,000 to the trustee of the Share Award Scheme for purchase of shares pursuant to the Share Award Scheme. Subsequent to that, the trustee has purchased a total of 1,412,000 ordinary shares of the Company at a total consideration of approximately HK$41,895,000. As at the date of this Annual Report, 1,704,555 outstanding Awarded Shares are held by the trustee of the Share Award Scheme for relevant grantees; and 1,580,578 shares (including those Awarded Shares forfeited) are held by the trustee and have yet to be awarded.

Further details in relation to the Share Award Scheme are set out in note 30 to the financial statements of this Annual Report.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

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

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

Note 1: As at 31 December 2012, the total number of the issued shares of the Company was 602,294,000.

Note 2: Biostime Pharmaceuticals (China) Limited ("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 mentioned above, as at 31 December 2012, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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 2012.

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 of the Company dated 3 December 2010 (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.

Reference is made to the section headed "Relationship with Our Controlling Shareholders" of the Prospectus and the section headed "Directors' Report – Non-compete Undertakings" of the Company's annual report for the year ended 31 December 2011. The controlling shareholders of the Company disposed of all equity interests in the company formerly known as Biostime Health and Nutrition (Guangzhou) Limited ("Biostime Nutrition") through Biostime Pharmaceuticals to an independent third party on 19 December 2011. Each of Mr. Luo Fei, Mr. Luo Yun and Dr. Zhang Wenhui also resigned from being the director of Biostime Nutrition on 19 December 2011. On 30 August 2012, Biostime Nutrition changed its company name to Leseil Health and Nutrition (Guangzhou) Limited (廣州樂賽營養保健品有限公司) so that its name no longer contains the English word "Biostime" or the Chinese word "合生元". In light of abovementioned, on 30 August 2012, all the proceedings with respect to the disposal of all equity of Biostime Nutrition and the change of its name had been completed, as the controlling shareholders of the Company had undertaken to do so in the Prospectus.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of our Directors confirms that he or she does not have any competing business with the Group.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2012, below transactions between BMcare Guangzhou, the Company's directly wholly-owned subsidiary and Guangzhou Biohope, the Company's connected person constituted continuing connected transactions under Chapter 14A of the Listing Rules.

Relationship with Guangzhou Biohope

Guangzhou Biohope is owned as to 52.8% by Mr. Luo Fei, 27.2% by Mr. Luo Yun and 20% by Mr. Chen Fufang, all of whom are Directors and among whom Mr. Luo Fei and Mr. Luo Yun are brothers. Mr. Luo Fei is an executive Director and the chief executive officer of the Company and hence a connected person of the Company. As Mr. Luo Fei can exercise more than 30% of the voting power at general meetings of Guangzhou Biohope, Guangzhou Biohope is an associate of Mr. Luo Fei and therefore a connected person of the Company under Rule 14A.11(4) of the Listing Rules.

Framework Purchase Agreement

On 13 September 2012, BMcare Guangzhou entered into a framework purchase agreement (the "Framework Purchase Agreement") with Guangzhou Biohope in relation to the purchase of certain raw materials from Guangzhou Biohope for the production of a new series of baby care products by BMcare Guangzhou. The term of the Framework Purchase Agreement is from 13 September 2012 to 31 December 2013. The annual caps for the transactions contemplated under the Framework Purchase Agreement are RMB3,500,000 and RMB15,000,000 for the financial years 2012 and 2013 respectively. As certain of the applicable percentage ratios (other than the profits ratio) as defined in Chapter 14 of the Listing Rules in respect of such annual caps are more than 0.1% but all of the relevant applicable percentage ratios are less than 5%, and that the transactions contemplated under the Framework Purchase Agreement are on normal commercial terms (or on terms no less favorable to the Group than terms made available from independent third parties (as defined in the Listing Rules)), these continuing connected transactions are subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Further details in relation to the Framework Purchase Agreement are set out in the Company's announcement dated 13 September 2012.

CONTINUING CONNECTED TRANSACTIONS (Continued)

Annual review of the continuing connected transactions

The independent non-executive Directors of the Company have reviewed the continuing connected transactions between BMcare Guangzhou and Guangzhou Biohope under the Framework Purchase Agreement and confirmed that during the financial year 2012, these transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to (or from) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

Details of these continuing connected transactions during the year ended 31 December 2012 are set out in note 35 to the financial statements.

Save as disclosed herein, no other 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 auditors.

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

The 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 auditors or external auditors before submission to the Board;

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

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

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 2012 and the annual results for the year ended 31 December 2012, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 and the Annual Report for the year ended 31 December 2012, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

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 as set out in Appendix 10 to the Listing Rules. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the Company Code and the Model Code during the year ended 31 December 2012.

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 2012.

EVENTS AFTER THE END OF THE REPORTING PERIOD

The details of events after the end of the reporting period of the Group are set out in note 38 to the financial statements.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 19 to 32 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 2012.

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 retires and a resolution for their reappointment as external auditors of the Company will be proposed at the 2013 AGM.

On behalf of the Board
Luo Fei
Chairman

Hong Kong, 19 March 2013

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 59 to 120, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

INDEPENDENT AUDITORS' REPORT

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 2012, 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

19 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**3,381,901**	2,189,034
Cost of sales		**(1,152,955)**	(732,907)
Gross profit		**2,228,946**	1,456,127
Other income and gains	5	**56,934**	71,751
Selling and distribution costs		**(1,077,721)**	(708,604)
Administrative expenses		**(116,871)**	(82,041)
Finance costs	6	**(2,106)**	–
Other expenses		**(38,609)**	(23,326)
PROFIT BEFORE TAX	7	**1,050,573**	713,907
Income tax expense	9	**(307,467)**	(186,556)
PROFIT FOR THE YEAR		**743,106**	527,351
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**5,143**	(55,898)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**748,249**	471,453
Profit attributable to owners of the parent	10	**743,106**	527,351
Total comprehensive income attributable to owners of the parent		**748,249**	471,453
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**1.24**	0.88
Diluted		**1.22**	0.86

Details of the dividends paid and proposed for the year are disclosed in note 11 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**77,074**	59,420
Prepaid land lease payment	14	**20,147**	–
Intangible assets	15	**1,151**	1,423
Loans receivable	16	**110,484**	–
Deposits	17	**12,795**	30,461
Time deposits	22	**942,062**	160,000
Deferred tax assets	26	**78,688**	36,397
Total non-current assets		**1,242,401**	287,701
CURRENT ASSETS			
Inventories	19	**523,267**	297,387
Trade and bills receivables	20	**372**	9,721
Prepayments, deposits and other receivables	21	**85,689**	29,156
Cash and cash equivalents	22	**1,669,066**	1,814,101
Loans receivable	16	**12,597**	–
Total current assets		**2,290,991**	2,150,365
CURRENT LIABILITIES			
Trade and bills payables	23	**263,118**	67,200
Other payables and accruals	24	**443,817**	265,145
Interest-bearing bank loans	25	**270,526**	–
Tax payable		**155,790**	82,709
Total current liabilities		**1,133,251**	415,054
NET CURRENT ASSETS		**1,157,740**	1,735,311
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,400,141**	2,023,012
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**77,489**	45,452
Net assets		**2,322,652**	1,977,560
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	**5,161**	5,161
Reserves	31(a)	**1,903,534**	1,678,987
Proposed dividends	11	**413,957**	293,412
Total equity		**2,322,652**	1,977,560

Luo Fei
Director

Kong Qingjuan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		Attributable to owners of the parent											
	Notes	Issued capital RMB'000	Share premium account RMB'000	Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
At 1 January 2011		5,141	1,266,718	–	26,992	95	21,177	2,649	–	(8,165)	243,888	101,397	1,659,892
Profit for the 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		20	21,467	–	–	–	–	–	–	–	–	–	21,487
Share issue expenses		–	(539)	–	–	–	–	–	–	–	–	(539)	
Equity-settled share option arrangements	29	–	–	–	–	–	–	5,721	–	–	–	–	5,721
Final 2010 dividend declared		–	–	–	–	–	–	–	–	–	–	(101,397)	(101,397)
Interim 2011 dividend	11	–	(79,057)	–	–	–	–	–	–	–	–	–	(79,057)
Proposed final 2011 dividend	11	–	(132,035)	–	–	–	–	–	–	–	–	132,035	–
Proposed special 2011 dividend	11	–	(161,377)	–	–	–	–	–	–	–	–	161,377	–
At 31 December 2011 and 1 January 2012		5,161	915,177*	–	26,992*	95*	80,456*	8,370*	–	(64,063)*	711,960*	293,412	1,977,560
Profit for the year		–	–	–	–	–	–	–	–	–	743,106	–	743,106
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	5,143	–	–	5,143
Total comprehensive income for the year		–	–	–	–	–	–	–	–	5,143	743,106	–	748,249
Transfer to statutory reserve funds		–	–	–	–	–	86,851	–	–	–	(86,851)	–	–
Equity-settled share option arrangements	29	–	–	–	–	–	–	8,346	–	–	–	–	8,346
Shares purchased for the Share Award Scheme	30	–	–	(56,756)	–	–	–	–	–	–	–	–	(56,756)
Equity-settled Share Award Scheme	30	–	–	26,251	–	–	–	–	22,985	–	–	–	49,236
Final 2011 dividend declared	11	–	910#	–	–	–	–	–	–	–	–	(132,035)	(131,125)
Special 2011 dividend declared	11	–	1,112#	–	–	–	–	–	–	–	–	(161,377)	(160,265)
Interim 2012 dividend	11	–	(112,593)	–	–	–	–	–	–	–	–	–	(112,593)
Proposed final 2012 dividend	11	–	(189,933)	–	–	–	–	–	–	–	–	189,933	–
Proposed special 2012 dividend	11	–	(224,024)	–	–	–	–	–	–	–	–	224,024	–
At 31 December 2012		5,161	390,649*	(30,505)*	26,992*	95*	167,307*	16,716*	22,985*	(58,920)*	1,368,215*	413,957	2,322,652

* These reserve accounts comprise the consolidated reserves of RMB1,903,534,000 (2011: RMB1,678,987,000) in the consolidated statement of financial position.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,050,573**	713,907
Adjustments for:			
Bank interest income	5	**(43,395)**	(17,289)
Interest income from loans receivable	5	**(1,040)**	–
Gains from principal guaranteed deposits	5	**(11,524)**	–
Finance costs	6	**2,106**	–
Depreciation	7	**21,842**	12,848
Amortisation of intangible assets	7	**349**	133
Amortisation of prepaid land lease payment	7	**384**	–
Loss on disposal of items of property, plant and equipment	7	**–**	122
Write-down of inventories to net realisable value	7	**239**	947
Equity-settled share option expense	7	**8,346**	5,721
Equity-settled share award expense	7	**49,236**	–
		1,077,116	716,389
Increase in inventories		**(226,119)**	(192,236)
(Increase)/decrease in trade and bills receivables		**9,349**	(4,510)
Increase in prepayments, deposits and other receivables		**(42,003)**	(3,513)
Increase in trade and bills payables		**195,918**	1,367
Increase in other payables and accruals		**177,410**	127,141
(Increase)/decrease in rental deposits	17	**151**	(5,473)
Cash generated from operations		**1,191,822**	639,165
Corporate income tax paid		**(244,640)**	(122,953)
Net cash flows from operating activities		**947,182**	516,212

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Net cash flows from operating activities		**947,182**	516,212
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(39,293)**	(38,764)
Proceeds from disposal of items of property, plant and equipment		**181**	251
Additions to intangible assets	15	**(77)**	(388)
Investment in loans receivable		**(123,315)**	–
Repayment of loans receivable		**1,274**	–
Interest received		**29,284**	14,268
Gains from principal guaranteed deposits	5	**11,524**	–
Increase in a deposit for the purchase of a parcel of land		**–**	(20,950)
Increase in deposits paid for intangible assets		**(3,208)**	–
Increase in time deposits with original maturity of three months or more when acquired	22	**(944,806)**	(323,645)
Increase in non-current time deposits	22	**(782,062)**	(160,000)
Net cash flows used in investing activities		**(1,850,498)**	(529,228)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	21,487
Share issue expenses		**–**	(9,879)
Purchase of shares held under the Share Award Scheme		**(56,756)**	–
Increase in interest-bearing bank loans		**270,526**	–
Interest paid		**(1,438)**	–
Dividends paid to owners of the parent		**(403,983)**	(180,454)
Net cash flows used in financing activities		**(191,651)**	(168,846)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,094,967)**	(181,862)
Cash and cash equivalents at beginning of year		**1,490,456**	1,728,211
Effect of foreign exchange rate changes, net		**5,126**	(55,893)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**400,615**	1,490,456
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**400,615**	1,490,456

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**7**	28
Loans receivable	16	**110,484**	–
Deposits	17	**–**	1,077
Investments in subsidiaries	18	**3,817,570**	3,297,058
Total non-current assets		**3,928,061**	3,298,163
CURRENT ASSETS			
Due from subsidiaries	18	**532,777**	55,951
Prepayments, deposits and other receivables	21	**11,182**	311
Loans receivable	16	**12,597**	–
Cash and cash equivalents	22	**147,503**	951,638
Total current assets		**704,059**	1,007,900
CURRENT LIABILITIES			
Trade payables	23	**223,048**	26,915
Due to subsidiaries	18	**29,005**	27,676
Other payables and accruals	24	**3,102**	5,038
Tax payable		**17,386**	–
Interest-bearing bank borrowings	25	**270,526**	–
Total current liabilities		**543,067**	59,629
NET CURRENT ASSETS		**160,992**	948,271
Net assets		**4,089,053**	4,246,434
EQUITY			
Issued capital	28	**5,161**	5,161
Reserves	31(b)	**3,669,935**	3,947,861
Proposed dividends	11	**413,957**	293,412
Total equity		**4,089,053**	4,246,434

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. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Biostime Pharmaceuticals (China) Limited, a limited liability company incorporated in the British Virgin Islands (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 2012. 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 in full on consolidation.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the 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 – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets And Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

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

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognise financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

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.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

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. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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 addresses the issues raised in SIC 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

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 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.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

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, IAS 27 (Revised), IAS 28 (Revised), and the subsequent amendments to these standards issued in July and December 2012 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.

The IAS 1 Amendments 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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

IAS 19 Amendments include 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.

The IAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to setoff” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to IFRSs 2009–2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. The amendment that is expected to have a significant impact on the Group’s policies is as follow:

IAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

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.

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 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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 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 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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 loans receivable, 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 profit or loss in finance costs for loans and in other expenses for receivables.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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 profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, and interest-bearing bank loans.

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 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 profit or loss.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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. Further details of fair values are given in notes 29 and 30 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 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 and share awards to its subsidiaries' employees in exchange for their services provided to the subsidiaries. Accordingly, in the Company's statement of financial position, the equity-settled share option and share award 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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 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 legislation and practices.

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 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 RMB60,662,000.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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 2012, the carrying amounts of inventories were approximately RMB523,267,000 (2011: RMB297,387,000) after netting off the allowance for inventories of approximately RMB1,262,000 (2011: RMB1,023,000).

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, finance costs 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 2012 and 2011, 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 2012	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	379,203	2,715,291	134,765	105,989	46,653	–	3,381,901
Segment results	294,777	1,768,756	76,741	58,162	30,510	–	2,228,946
Reconciliations:							
Interest income							44,435
Other income and unallocated gains							12,499
Corporate and other unallocated expenses							(1,233,201)
Finance costs							(2,106)
Profit before tax							1,050,573
Other segment information:							
Depreciation and amortisation	2,975	2,017	866	174	647	15,896	22,575
Write-down/(back) of inventories to net realisable value	(55)	45	3	228	18	–	239
Capital expenditure*	4,491	29	24	132	497	55,514	60,687

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)
Finance costs							–
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

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

	2012 RMB'000	2011 RMB'000
Revenue		
Sale of goods	3,381,901	2,189,034
Other income and gains		
Bank interest income	43,395	17,289
Interest income from loans receivable	1,040	–
Gains from investments in principal guaranteed deposits	11,524	–
Foreign exchange gain	–	52,784
Others	975	1,678
	56,934	71,751

6. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on bank loans	2,106	–

7. PROFIT BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold		**1,152,716**	731,960
Depreciation	13	**21,842**	12,848
Amortisation of intangible assets	15	**349**	133
Research and development costs*		**27,202**	19,775
Loss on disposal of items of property, plant and equipment		**–**	122
Minimum lease payments under operating leases in respect of buildings		**32,277**	23,085
Amortisation of land lease payment	14	**384**	–
Auditors' remuneration		**2,300**	2,050
Employee benefit expenses (including directors' and chief executive's remuneration (note 8(a)):			
Wages and salaries		**391,516**	218,979
Pension scheme contributions (defined contribution schemes)		**53,428**	31,867
Staff welfare and other expenses		**30,698**	12,139
Equity-settled share option expense	29	**8,346**	5,721
Equity-settled share award expense	30	**49,236**	–
		533,224	268,706
Foreign exchange differences,net		**7,184**	(52,784)
Write-down of inventories to net realisable value#		**239**	947

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

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and chief executive's remuneration

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

	2012 **RMB'000**	2011 RMB'000
Fees	**1,380**	1,350
Other emoluments:		
Salaries, allowances and benefits in kind	**8,295**	3,948
Performance-related bonuses	**7,014**	10,324
Equity-settled share option expense	**1,050**	704
Equity-settled share award expense	**2,922**	–
Pension scheme contributions	**125**	138
	19,406	15,114
	20,786	16,464

In prior years, share options were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 29 to the financial statements. During the year, share awards were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 30 to the financial statements. The fair value of these options and share awards, which has been recognised in the 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' and chief executive's remuneration disclosures.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

(a) Directors' and chief executive's remuneration (Continued)

The remuneration of each of the directors and the chief executive for the year ended 31 December 2012 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	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2012							
Executive directors:							
Mr. Luo Fei (Chief executive)	200	4,952	4,122	298	1,966	57	11,595
Ms. Kong Qingjuan	200	2,118	2,054	183	956	57	5,568
	400	7,070	6,176	481	2,922	114	17,163
Non-executive directors:							
Mr. Luo Yun	–	–	–	–	–	–	–
Mr. Wu Xiong	–	–	–	–	–	–	–
Mr. Chen Fufang	–	–	–	–	–	–	–
Dr. Zhang Wenhui*	200	1,225	838	194	–	11	2,468
	200	1,225	838	194	–	11	2,468
Independent non-executive directors:							
Mr. Ngai Wai Fung	260	–	–	125	–	–	385
Mr. Tan Wee Seng	260	–	–	125	–	–	385
Professor Xiao Baichun	260	–	–	125	–	–	385
	780	–	–	375	–	–	1,155
	1,380	8,295	7,014	1,050	2,922	125	20,786

* Dr. Zhang Wenhui has been re-designated from an executive director to a non-executive director with effect from 25 June 2012.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

(a) Directors' and chief executive's remuneration (Continued)

The remuneration of each of the directors and the chief executive 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	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2011							
Executive directors:							
Mr. Luo Fei (Chief executive)	200	2,378	5,368	304	–	53	8,303
Dr. Zhang Wenhui	200	824	2,043	198	–	32	3,297
Ms. 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

There was no arrangement under which a director or the chief executive 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 (2011: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

(b) Five highest paid employees

The five highest paid employees during the year included two (2011: three) directors, details of whose remuneration are set out in note 8(a) above. Details of the remuneration for the year of the remaining three (2011: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	6,314	1,292
Performance-related bonuses	6,127	4,526
Equity-settled share option expense	430	296
Equity-settled share award expense	3,320	–
Pension scheme contributions	172	105
	16,363	6,219

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

	2012	2011
HK$3,000,001 to HK$3,500,000	–	1
HK$4,000,001 to HK$4,500,000	–	1
HK$5,500,001 to HK$6,000,000	1	–
HK$6,500,001 to HK$7,000,000	1	–
HK$7,500,001 to HK$8,000,000	1	–
	3	2

In prior years, share options were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. During the year, share awards were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 30 to the financial statements. The fair value of these share options and share awards, 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 and non-chief executive highest paid employees' remuneration disclosures.

9. INCOME TAX

	2012 RMB'000	2011 RMB'000
Group:		
Current – Charge for the year		
Mainland China	**317,714**	177,451
France	**7**	41
Deferred (note 26)	**(10,254)**	9,064
Total tax charge for the year	**307,467**	186,556

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

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil).

PRC enterprise income tax ("EIT")

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

Biostime (Guangzhou) Health Products Limited ("Biostime Health"), the Company's subsidiary, 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%, 12% and 12.5% for the three years ended 31 December 2010, 2011, and 2012, respectively.

9. INCOME TAX (Continued)

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:

	2012 RMB'000	2011 RMB'000
Group:		
Profit before tax	**1,050,573**	713,907
Tax at the applicable PRC enterprise income tax rate	**262,643**	178,477
Overseas tax differential	**4**	(3,013)
Effect of tax concession for Biostime Health	**(28,847)**	(24,799)
Income not subject to tax	**–**	(9,500)
Expenses not deductible for tax	**14,265**	5,699
Tax losses not recognised	**84**	–
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**59,318**	39,692
Tax charge at the Group's effective rate	**307,467**	186,556

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of RMB244,528,000 (2011: a profit of RMB36,003,000) which has been dealt with in the financial statements of the Company (note 31(b)).

11. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Dividends on ordinary shares declared and paid during the year:		
Interim – HK$0.23 (2011: HK$0.16) per ordinary share	**112,593**	79,057
Proposed final – HK$0.39 (2011: HK$0.27) per ordinary share	**189,933**	132,035
Proposed special – HK$0.46 (2011: HK$0.33) per ordinary share	**224,024**	161,377
	526,550	372,469

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.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 598,731,488 (2011: 602,231,151) in issue during the year.

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

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

	2012 RMB'000	2011 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	743,106	527,351
	Number of Shares	
Shares		
Weighted average number of ordinary shares in issue	602,294,000	602,231,151
Weighted average number of shares purchased for the Share Award Scheme	(3,562,512)	–
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	598,731,488	602,231,151
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	12,846,278	8,312,670
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	611,577,766	610,543,821

13. 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 2012	13,025	39,125	23,202	12,027	–	87,379
Additions	5,091	18,240	7,784	1,991	6,554	39,660
Transfers	–	–	–	–	–	–
Disposals	(135)	(309)	–	–	–	(444)
Exchange alignment	17	4	–	–	–	21
At 31 December 2012	17,998	57,060	30,986	14,018	6,554	126,616
Accumulated depreciation:						
At 1 January 2012	5,151	10,960	6,307	5,541	–	27,959
Depreciation provided during the year	1,690	12,230	4,638	3,284	–	21,842
Disposals	(30)	(233)	–	–	–	(263)
Exchange alignment	3	1	–	–	–	4
At 31 December 2012	6,814	22,958	10,945	8,825	–	49,542
Net carrying amount:						
At 31 December 2012	11,184	34,102	20,041	5,193	6,554	77,074
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

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:			
At 1 January 2012	81	–	81
Additions	7	–	7
Transfers	–	–	–
Exchange alignment	1	–	1
At 31 December 2012	89	–	89
Accumulated depreciation:			
At 1 January 2012	53	–	53
Depreciation provided during the year	29	–	29
Exchange alignment	–	–	–
At 31 December 2012	82	–	82
Net carrying amount:			
At 31 December 2012	7	–	7
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

14. PREPAID LAND LEASE PAYMENT

	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January	–	–
Addition	20,950	–
Recognised during the year (note 7)	(384)	–
Carry amount at 31 December	20,566	–
Current portion included in prepayments, deposits and other receivables (note 21)	(419)	–
Non-current portion	20,147	–

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

15. INTANGIBLE ASSETS

Group

Computer software	2012 RMB'000	2011 RMB'000
Cost:		
At 1 January	2,057	1,669
Additions	77	388
At 31 December	2,134	2,057
Accumulated amortisation:		
At 1 January	634	501
Amortisation provided during the year	349	133
At 31 December	983	634
Net carrying amount:		
At 31 December	1,151	1,423

16. LOANS RECEIVABLE

The Group and the Company

	2012 RMB'000	2011 RMB'000
Current portion of loans receivable	12,597	–
Long-term loans receivable	110,484	–
Total loans receivable	123,081	–

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

	Effective interest rate	Maturity	2012 RMB'000	2011 RMB'000
Denominated in United States dollars (the "USD")	3.00%	By instalments before December 2018	33,942	–
Denominated in Danish krones (the "DKK")	DKK CIBOR rate +1%	By instalments before January 2017	89,139	–
Total loans receivable			123,081	–

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

17. DEPOSITS

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Deposits paid for purchase of intangible assets	3,208	–	–	–
Deposits paid for purchase of land	–	20,950	–	–
Deposits paid for purchase of items of property, plant and equipment	4,265	4,038	–	1,077
Rental deposits	5,322	5,473	–	–
	12,795	30,461	–	1,077

18. INVESTMENTS IN SUBSIDIARIES

Company

	2012 RMB'000	2011 RMB'000
Unlisted investments, at cost	**3,757,004**	3,290,050
Capital contribution in respect of employee share-based compensation	**60,566**	7,008
	3,817,570	3,297,058

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB532,777,000 (2011: RMB55,951,000) and RMB29,005,000 (2011: RMB27,676,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou") *	PRC/Mainland China	US$73,010,000	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") *	PRC/Mainland China	US$34,100,000	100%	–	Research, development, manufacture and sale of health products and special nutritional foods
BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou") *	PRC/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%	–	Trading of infant food and nutritional products
Biostime (Guangzhou) Education Management Inc. ("Biostime Education") *	PRC/Mainland China	US$2,000,000	100%	–	Early childhood education advisory business and trading of related baby supplies

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Biostime International Investment Limited ("Biostime Investment")	BVI	US$50,000	100%	–	Overseas investments, financing and other business cooperation
Biostime Hong Kong Limited ("Biostime HK")	Hong Kong	US$10,000	–	100%	Investment holding, international investment, trading and sales

* Registered as a limited liability company under the laws of the PRC.

19. INVENTORIES

Group

	2012 RMB'000	2011 RMB'000
Raw materials	**185,647**	234,658
Raw materials in transit	**277,425**	18,494
Work in progress	**2,486**	1,175
Finished goods	**57,709**	43,060
	523,267	297,387

20. TRADE AND BILLS RECEIVABLES

Group

	2012 RMB'000	2011 RMB'000
Trade receivables	**272**	1,380
Bills receivable	**100**	8,341
Less: Impairment provision	**–**	–
	372	9,721

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.

20. TRADE AND BILLS RECEIVABLES (Continued)

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

	2012 RMB'000	2011 RMB'000
Within 1 month	150	4,815
1 to 3 months	134	3,202
Over 3 months	88	1,704
	372	9,721

The above aged analysis included the bills receivable balance of RMB100,000 (2011: RMB8,341,000).

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

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	372	9,421
Past due but not impaired		
Over 3 months past due	–	300
	372	9,721

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**12,511**	8,704	**6,286**	–
Deposits	**842**	864	**119**	36
Other receivables	**61,798**	14,323	**4,525**	275
Prepaid expenses	**10,119**	5,265	**252**	–
Current portion of prepaid land lease payment (note 14)	**419**	–	**–**	–
	85,689	29,156	**11,182**	311

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.

22. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**400,615**	1,490,456	**147,503**	951,638
Time deposits	**2,210,513**	483,645	**–**	–
	2,611,128	1,974,101	**147,503**	951,638
Less: Non-pledged time deposits with original maturity of more than one year when acquired	**(942,062)**	(160,000)	**–**	–
Cash and cash equivalents as stated in the consolidated statement of financial position	**1,669,066**	1,814,101	**147,503**	951,638
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(1,268,451)**	(323,645)	**–**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows	**400,615**	1,490,456	**147,503**	951,638
Denominated in RMB (note)	**2,538,079**	1,926,226	**88,316**	949,237
Denominated in other currencies	**73,049**	47,875	**59,187**	2,401
	2,611,128	1,974,101	**147,503**	951,638

22. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS (Continued)

Note:

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE AND BILLS PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**262,170**	67,200	**223,048**	26,915
Bills payable	**948**	–	**–**	–
	263,118	67,200	**223,048**	26,915

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 month	**244,842**	51,222	**223,048**	24,756
1 to 3 months	**17,847**	15,682	**–**	2,159
Over 3 months	**429**	296	**–**	–
	263,118	67,200	**223,048**	26,915

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

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**25,233**	29,115	**–**	–
Salaries and welfare payables	**80,099**	50,754	**523**	600
Accruals	**198,257**	74,709	**1,779**	2,655
Other tax payables	**90,095**	63,445	**–**	–
Deferred income (note 27)	**33,381**	18,309	**–**	–
Other payables	**16,752**	28,813	**800**	1,783
	443,817	265,145	**3,102**	5,038

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

25. INTEREST-BEARING BANK LOANS

The Group and the Company

	2012			2011		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Unsecured bank loans	**HIBOR+2.25%**	**On demand**	**181,332**	–	N/A	–
Unsecured bank loans	**2.30%**	**On demand**	**89,194**	–	N/A	–
			270,526			–

As at 31 December 2012, all the Group's bank loans are denominated in HK$ and US$ at aggregate amounts of RMB210,814,000 (2011: Nil) and RMB59,712,000 (2011: Nil), respectively.

26. 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	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2012	334	25,107	6,379	4,577	36,397
Credited/(charged) to the consolidated statement of comprehensive income for the year	(10)	31,263	7,270	3,768	42,291
At 31 December 2012	324	56,370	13,649	8,345	78,688
At 1 January 2011	105	376	1,438	3,850	5,769
Credited to the consolidated statement of comprehensive income for the year	229	24,731	4,941	727	30,628
At 31 December 2011	334	25,107	6,379	4,577	36,397

26. DEFERRED TAX (Continued)

Deferred tax liabilities

Group

	Withholding taxes on distributable earnings of subsidiaries in Mainland China RMB'000
At 1 January 2012	45,452
Transfer out to tax payable	(27,281)
Charged to the consolidated statement of comprehensive income for the year	59,318
At 31 December 2012	77,489
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

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

	2012 RMB'000	2011 RMB'000
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	**78,688**	36,397
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	**(77,489)**	(45,452)
	1,199	(9,055)

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.

26. DEFERRED TAX (Continued)

As at 31 December 2012, the Group has not recognised deferred tax liabilities of RMB60,662,000 (2011: RMB36,697,000) in respect of temporary differences relating to the unremitted profits of subsidiaries, amounting to RMB606,620,000 (2011: RMB366,965,000), 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.

27. DEFERRED INCOME

Group

	2012 **RMB'000**	2011 RMB'000
Customer loyalty program		
At 1 January	**18,309**	6,603
Addition	**228,380**	195,469
Recognised as revenue during the year	**(213,308)**	(183,763)
At 31 December	**33,381**	18,309

28. SHARE CAPITAL

Shares

	2012	2011
Authorised:		
10,000,000,000 (2011: 10,000,000,000) ordinary shares of HK$0.01 each	**HK$100,000,000**	HK$100,000,000
Issued and fully paid:		
602,294,000 (2011: 602,294,000) ordinary shares of HK$0.01 each	**HK$6,022,940**	HK$6,022,940
Equivalent to	**RMB5,161,000**	RMB5,161,000

29. 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 those 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;

(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.

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 at a consideration of HK$1.00 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.

29. SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated at approximately RMB25,068,000 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

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

	Number of options	
	2012	2011
	'000	'000
At 1 January	**10,246**	10,913
Forfeited during the year	**(295)**	(667)
At 31 December	**9,951**	10,246

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme at 31 December 2012 are as follows:

Number of options '000	Exercise price HK$ per share	Exercise period
2,985	2.53	17-12-13 to 17-12-16
2,985	2.53	17-12-14 to 17-12-16
3,981	2.53	17-12-15 to 17-12-16
9,951		

The Group recognised a share option expense related to share options under the Pre-IPO Share Option Scheme of RMB4,575,000 during the year ended 31 December 2012 (2011: RMB4,788,000).

The exercise in full of the outstanding share options under the Pre-IPO Share Option Scheme would, under the present capital structure of the Company, result in the issue of 9,951,000 additional ordinary shares of the Company and additional share capital of HK$99,510 (RMB81,000) and share premium of HK$25,077,000 (RMB20,334,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 9,930,257 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.6% of the Company's shares in issue as at that date.

29. 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 Share Option 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 the terms and conditions as the board of directors 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 of directors, but may not be less than the highest of (i) the Stock Exchange of Hong Kong Limited (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.

29. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

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

	2012		2011	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**13.00**	**2,441**	N/A	–
Granted during the year	**22.84**	**2,088**	13.05	2,544
Forfeited during the year	**10.70**	**(470)**	14.27	(103)
At 31 December	**17.95**	**4,059**	13.00	2,441

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	1 June 2012	7 December 2012
Dividend yield (%)	2.02	2.02
Expected volatility (%)	50.79	45.41
Risk-free interest rate (%)	0.45	0.27
Expected life of share options (years)	3.05 ~ 4.05	2.53 ~ 3.53
Weighted average share price (HK$ per share)	19.64	24.70
Fair value	RMB4,125,000	RMB7,760,000

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.

29. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

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

31 December 2012

Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
228	15.312	17-12-13 to 17-12-16
301	11.52	17-12-13 to 17-12-16
90	12.12	17-12-13 to 17-12-16
203	19.64	17-12-13 to 17-12-16
396	24.70	17-12-13 to 17-12-16
228	15.312	17-12-14 to 17-12-16
301	11.52	17-12-14 to 17-12-16
90	12.12	17-12-14 to 17-12-16
203	19.64	17-12-14 to 17-12-16
396	24.70	17-12-14 to 17-12-16
305	15.312	17-12-15 to 17-12-16
401	11.52	17-12-15 to 17-12-16
120	12.12	17-12-15 to 17-12-16
270	19.64	17-12-15 to 17-12-16
527	24.70	17-12-15 to 17-12-16
4,059		

31 December 2011

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

29. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

The Group recognised a share option expense related to share options under the Share Option Scheme of RMB3,771,000 during the year ended 31 December 2012 (2011: RMB933,000).

The exercise in full of the outstanding share options under the Share Option Scheme would, under the present capital structure of the Company, result in the issue of 4,059,000 additional ordinary shares of the Company and additional share capital of HK$41,000 (RMB33,000) and share premium of HK$72,673,000 (RMB58,927,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 3,937,483 share options outstanding under the Share Option Scheme, which represented approximately 0.7% of the Company's shares in issue as at that date.

30. SHARE AWARD SCHEME

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

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") of the Share Award Scheme on the market out of the funds contributed by the Company and be held in trust for the relevant participants in accordance with the provisions of the Share Award Scheme. The vesting period shall, in any event, be no longer than ten years.

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

During the year ended 31 December 2012, the board resolved to pay RMB28,841,276 and RMB30,000,000 to the Trustee of the Share Award Scheme on 4 January 2012 and 30 March 2012 respectively, so that the Trustee would then purchase and grant relevant shares to certain grantees under the Share Award Scheme.

During the year ended 31 December 2012, based on the Company's instructions, the trustee of the Share Award Scheme has purchased a total of 4,150,000 ordinary shares of the Company on the Stock Exchange at a total consideration of about HK$69,853,000 (equivalent to RMB56,756,000).

30. SHARE AWARD SCHEME (Continued)

Summary of particulars of the shares awarded under the share award scheme (the "Awarded Shares") since the Adoption Date till 31 December 2012 is as follows:

Date of grant	Number of Awarded Shares granted	Fair value	Vesting date	Number of Awarded Shares: Vested as at 31 December 2012	Forfeited as at 31 December 2012	Outstanding (held by the trustee for the grantees) as at 31 December 2012
		RMB				
30 March 2012	2,315,882*	36,079,000	30 September 2012	2,276,867	(39,015)	–
3 July 2012	1,734,739#	28,347,000	3 July 2013	–	(21,720)	1,713,019
Total	4,050,621	64,426,000		2,276,867	(60,735)	1,713,019

* : Among these Awarded Shares granted, 143,000 Awarded Shares were granted to the executive directors.

: Among these Awarded Shares granted, 84,000 Awarded Shares were granted to the executive directors.

The Group recognised a share award expense of RMB49,236,000 during the year (2011: Nil).

On 8 January 2013, the board further resolved to pay RMB31,000,000 to the Trustee of the Share Award Scheme for purchase of shares pursuant to the Share Award Scheme.

Subsequent to the end of the reporting period, the Trustee has purchased a total number of 1,412,000 ordinary shares of the Company at a total cash consideration of approximately HK$41,895,000 (equivalent to RMB33,624,000), including transaction costs. At the date of approval of these financial statements, 1,704,555 outstanding Awarded Shares are held by the trustee of the Share Award Scheme for relevant grantees; and 1,580,578 shares (including those Awarded Shares forfeited) are held by the trustee and have yet to be awarded.

31. 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 page 61 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 group reorganisation (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.

31. RESERVES (Continued)

(b) Company

	Notes	Share premium account RMB'000	Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 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		21,467	–	–	–	–	–	–	21,467
Share issue expenses		(539)	–	–	–	–	–	–	(539)
Equity-settled share option arrangements	29	–	–	–	5,721	–	–	–	5,721
Interim 2011 dividend	11	(79,057)	–	–	–	–	–	–	(79,057)
Proposed final 2011 dividend	11	(132,035)	–	–	–	–	–	–	(132,035)
Proposed special 2011 dividend	11	(161,377)	–	–	–	–	–	–	(161,377)
At 31 December 2011 and 1 January 2012		915,177	–	3,260,270	8,370	–	(244,941)	8,985	3,947,861
Total comprehensive income for the year		–	–	–	–	–	1,248	244,528	245,776
Equity-settled share option arrangements	29	–	–	–	8,346	–	–	–	8,346
Shares purchased for the Share Award Scheme	30	–	(56,756)	–	–	–	–	–	(56,756)
Equity-settled Share Award Scheme	30	–	26,251	–	–	22,985	–	–	49,236
Final 2011 dividend declared		910#	–	–	–	–	–	–	910
Special 2011 dividend		1,112#	–	–	–	–	–	–	1,112
Interim 2012 dividend	11	(112,593)	–	–	–	–	–	–	(112,593)
Proposed final 2012 dividend	11	(189,933)	–	–	–	–	–	–	(189,933)
Proposed special 2012 dividend	11	(224,024)	–	–	–	–	–	–	(224,024)
At 31 December 2012		390,649	(30,505)	3,260,270	16,716	22,985	(243,693)	253,513	3,669,935

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

31. RESERVES (Continued)

(b) Company (Continued)

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.

32. CONTINGENT LIABILITIES

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

33. 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 2012 and 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**52,020**	27,089	**425**	222
In the second to fifth years, inclusive	**48,084**	56,411	**284**	–
After five years	**7**	1,873	**–**	–
	100,111	85,373	**709**	222

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Intangible assets	**1,826**	198	**–**	–
Fixed assets	**84,866**	4,246	**–**	2,106
	86,692	4,444	**–**	2,106

35. RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Related party transactions

	Notes	**2012** **RMB'000**	2011 RMB'000
Purchases from a company under common control of directors	(i)	**2,354**	–
A related party*:			
– Sales of raw materials	(ii)	**–**	16
– Production services provided	(iii)	**–**	57
– Sales agency services provided	(iv)	**–**	232
– Purchase of finished goods	(v)	**–**	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. The related party transactions constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(ii) The raw materials were sold at cost.

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

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

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

35. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(b) Outstanding balances with related party

At the end of the reporting period, there was no balance arising from the above related party transactions (2011: 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 8(a), compensation of other key management personnel of the Group is as follows:

	2012 RMB'000	2011 RMB'000
Short-term employee benefits	**38,516**	23,447
Pension scheme contributions	**791**	1,000
Equity-settled share option expense	**1,371**	1,438
Equity-settled share award expense	**10,242**	–
Total compensation paid to key management personnel	**50,920**	25,885

36. 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	**2012 RMB'000**	2011 RMB'000
Trade and bills receivables	20	**372**	9,721
Financial assets included in prepayments, deposits and other receivables	21	**62,640**	15,187
Loans receivable	16	**123,081**	–
Cash and cash equivalents	22	**1,669,066**	1,814,101
Non-current time deposits	22	**942,062**	160,000
		2,797,221	1,999,009

36. FINANCIAL INSTRUMENTS (Continued)

Financial assets – loans and receivables (Continued)

Company

	Notes	2012 RMB'000	2011 RMB'000
Due from subsidiaries	18	**532,777**	55,951
Financial assets included in prepayments, deposits and other receivables	21	**4,644**	311
Loans receivable	16	**123,081**	–
Cash and cash equivalents	22	**147,503**	951,638
		808,005	1,007,900

Financial liabilities at amortised cost

Group

	Notes	2012 RMB'000	2011 RMB'000
Trade and bills payables	23	**263,118**	67,200
Financial liabilities included in other payables and accruals	24	**207,295**	87,676
Interest-bearing bank borrowings	25	**270,526**	–
		740,939	154,876

Company

	Notes	2012 RMB'000	2011 RMB'000
Trade payables	23	**223,048**	26,915
Due to subsidiaries	18	**29,005**	27,676
Financial liabilities included in other payables and accruals	24	**2,579**	4,438
Interest-bearing bank borrowings	25	**270,526**	–
		525,158	59,029

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.

36. FINANCIAL INSTRUMENTS (Continued)

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, current portion of loans receivable, cash and cash equivalents, trade and bills 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 loans receivable and 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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, time deposits, and bank loans. 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 interest risk, 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 directors reviews and agrees policies for managing each of these risks and they are summarised below:

Interest rate risk

In respect of the floating interest rate instruments, the Group is subject to the cash flow interest rate risk, while for the fixed interest rate instruments, the Group is subject to fair value interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax by assuming the floating rate borrowings outstanding at the end of the reporting period were outstanding for the whole year.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2012	50	461
Year ended 31 December 2012	(50)	(461)
Year ended 31 December 2011	50	–
Year ended 31 December 2011	(50)	–

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the unit's functional currencies. Approximately 90.1% (2011: 87.4%) 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$, USD and Euro. In addition, the group provided loans to suppliers denominated in USD and DKK and borrowed certain bank loans in 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, HK$ and DKK 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$/DKK rate	**Increase/ (decrease) in profit before tax**	
		2012	2011
	%	**RMB'000**	RMB'000
If the RMB weakens against the USD	5	**1,815**	1,340
If the RMB strengthens against the USD	(5)	**(1,815)**	(1,340)
If the RMB weakens against the Euro	5	**(8,819)**	(1,082)
If the RMB strengthens against the Euro	(5)	**8,819**	1,082
If the RMB weakens against the HK$	5	**1,515**	26
If the RMB strengthens against the HK$	(5)	**(1,515)**	(26)
If the RMB weakens against the DKK	5	**3,650**	–
If the RMB strengthens against the DKK	(5)	**(3,650)**	–

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.

The credit risk of the Group's other financial assets, which comprise loans receivable, 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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 2012 and 2011, all the Group's financial liabilities would be due within 12 months. Their contractual amounts to be paid are 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.

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 are as follows:

	2012	2011
	RMB'000	RMB'000
Total liabilities	**1,210,740**	460,506
Total assets	**3,533,392**	2,438,066
Liabilities to assets ratio	**34%**	19%

38. EVENTS AFTER THE END OF THE REPORTING PERIOD

Save as disclosed in note 30, no significant event took place subsequent to 31 December 2012.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2013.

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				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	**2012** **RMB'000**
RESULTS					
REVENUE	325,540	558,969	1,233,560	2,189,034	**3,381,901**
Gross profit	236,874	395,953	877,173	1,456,127	**2,228,946**
PROFIT BEFORE TAX	44,606	118,153	334,063	713,907	**1,050,573**
Income tax expense	(9,444)	(9,836)	(68,380)	(186,556)	**(307,467)**
PROFIT FOR THE YEAR	35,162	108,317	265,683	527,351	**743,106**
Attributable to:					
Owners of the parent	35,066	108,317	265,683	527,351	**743,106**
Non-controlling interests	96	–	–	–	**–**
	35,162	108,317	265,683	527,351	**743,106**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB)					
For profit for the year					
– Basic	0.08	0.24	0.58	0.88	**1.24**
– Diluted	0.08	0.24	0.58	0.86	**1.22**

	As of 31 December				
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	**2012** **RMB'000**
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Non-current assets	27,869	29,755	39,857	287,701	**1,242,401**
Current assets	147,429	253,664	1,862,142	2,150,365	**2,290,991**
Current liabilities	(86,625)	(112,862)	(236,347)	(415,054)	**(1,133,251)**
Non-current liabilities	–	–	(5,760)	(45,452)	**(77,489)**
Net assets	88,673	170,557	1,659,892	1,977,560	**2,322,652**
Attributable to:					
Owners of the parent	88,422	170,557	1,659,892	1,977,560	**2,322,652**
Non-controlling interests	251	–	–	–	**–**
	88,673	170,557	1,659,892	1,977,560	**2,322,652**

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 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