

# **BIOSTIME 合生元**

**Biostime International Holdings Limited**

**合生元國際控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

(Stock Code 股份代號: 1112)



**Interim Report 2014**  
**二零一四年中期報告**





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# BIOSTIME





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# 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 COMMITTEE

### 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. 3508, 35th Floor, West Tower  
Shun Tak Centre  
200 Connaught Road Central  
Hong Kong

## COMPANY'S WEBSITE

[www.biostime.com.cn](http://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*  
22/F, CITIC Tower  
1 Tim Mei Avenue,  
Central, Hong Kong



## LEGAL ADVISOR (AS TO HONG KONG LAWS)

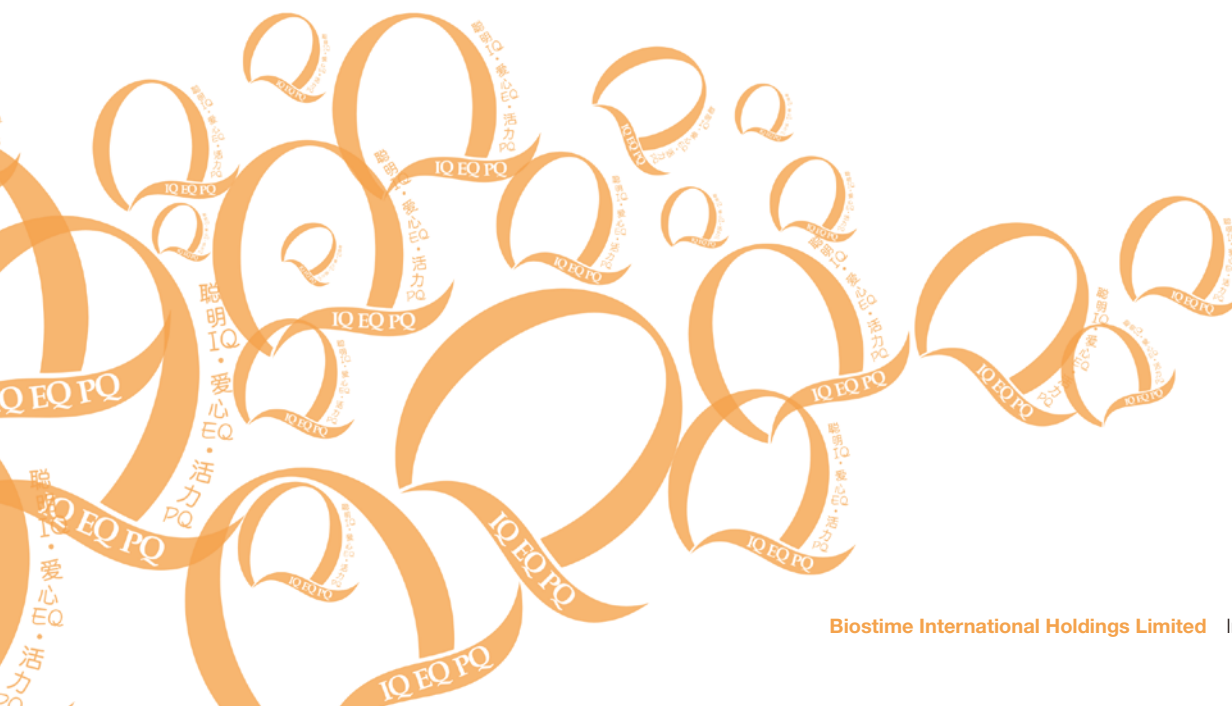
Orrick, Herrington & Sutcliffe  
43rd Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

## 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 AND TRANSFER OFFICE

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

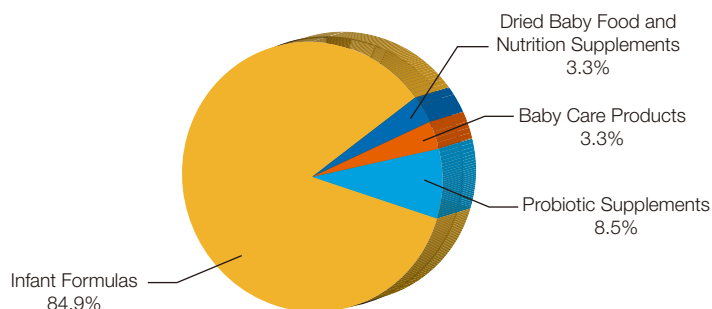


# FINANCIAL HIGHLIGHTS

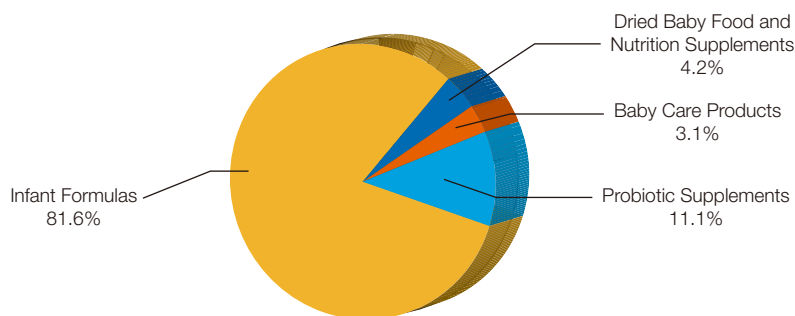
	Six months ended 30 June		% of change
	2014 RMB'000	2013 RMB'000	
Revenue	<b>2,188,974</b>	2,061,481	6.2%
Gross profit	<b>1,345,601</b>	1,369,597	(1.8)%
Profit for the period	<b>312,223</b>	297,507	4.9%
Earnings per share			
– Basic	<b>RMB0.52</b>	RMB0.50	4.0%
– Diluted	<b>RMB0.51</b>	RMB0.49	4.1%

## REVENUE BY PRODUCT SEGMENT

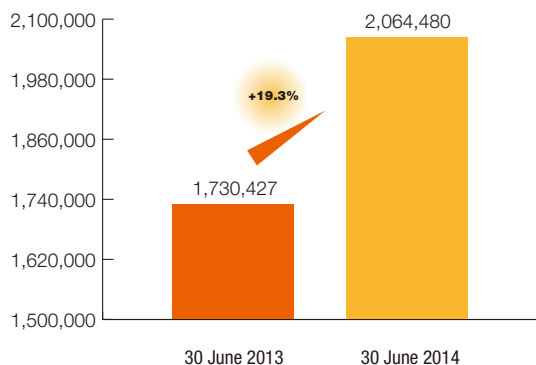
Six months ended 30 June 2014



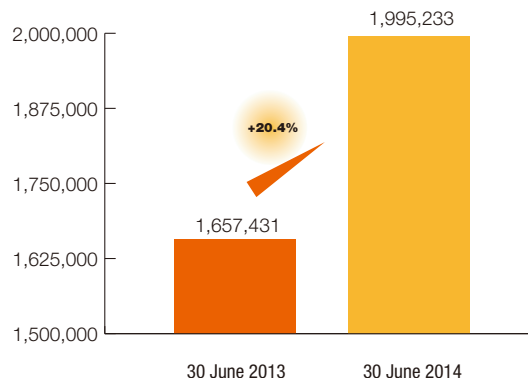
Six months ended 30 June 2013



No. of active Mama100 members



No. of average active Mama100 members





## BUSINESS REVIEW

During the first half of 2014, infant formulas remained the mainstay product category of Biostime International Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) and accounted for 84.9% of the Group’s total revenue. Despite the intensified competition in China infant formula industry, sales of the Group’s infant formulas increased by 17.7% in terms of volume and by 10.5% in terms of value, when compared with the same period last year. According to Nielsen, an independent third party market research firm, in the second quarter of 2014, the Group ranked third in terms of market share in China’s offline infant formula market.

Sales of infant formulas under the brand Adimil maintained strong momentum during the first half of this year, accounting for 19.3% of the Group’s sales of infant formulas. In view of consumers’ positive feedback towards Adimil since its launch to the market in September of last year, the Group stepped up investment in this new brand by increasing spending on marketing and building a dedicated sales force, successfully leading to a rapid growth of the new brand across China.

After demonstrating its full conformity with the more stringent industry manufacturing standards, the Group has gladly seen Adimil (Changsha) Nutrition Products Limited (“Changsha Adimil”)<sup>(1)</sup>, the Group’s infant formula plant acquired last December, successfully renewed its National Industrial Products Production Permit for the production of infant formula products in May 2014. With this permit, Changsha Adimil can commence production of the new Adimil series on schedule with imported European milk sources, allowing the Group to launch its next infant formula series to the market before the end of this year. The management is confident that the new line will help further increase the market penetration of Adimil branded infant formulas in China.

Meanwhile, the Group’s three foreign infant formula suppliers were successfully accredited by CNCA<sup>(2)</sup> and registered with AQSIQ<sup>(3)</sup> under the new regulations governing foreign infant formula producers. Therefore, the Group is now able to secure stable supply of high quality imported infant formula products from Europe.

Sales of infant formulas and probiotic supplements under the brand Biostime did not meet the management’s target during the first half of 2014, due to the intensified market competition and the insufficiency of dedicated efforts of the Group’s sales force. Consequently, the Group carried out a business unit restructuring by splitting its former sales and marketing teams into different business units in accordance with the Group’s brands. The restructuring has been completed on 30 June 2014. Under the new business unit structure, the Group is confident that it will be able to achieve stronger business growth for each brand in the future through each team’s dedicated efforts.

### Notes:

- (1) Changsha Yingke Nutrition Products Company Limited (長沙營可營養品有限公司) was acquired by the Group on 30 December 2013, which subsequently changed its name to Adimil (Changsha) Nutrition Products Limited (長沙素加營養品有限公司) during the first half of 2014.
- (2) Certification and Accreditation Administration of China (中國國家認證認可監督管理委員會).
- (3) General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China (國家質量監督檢驗檢疫總局), which is the administrative agency in the People’s Republic of China (the “PRC”) in charge of, among other things, inspection of entry/exit of goods, import and export food safety, and certification.

# MANAGEMENT DISCUSSION AND ANALYSIS

BMcare baby care products recorded an increase of 15.4% in revenue when compared with the same period last year, and accounted for 3.3% of the Group's total revenue. In May 2014, the Group trial launched a new series of diapers to the market. These products, which were available for sale in some selected stores, have since been well received by mother consumers. The Group intended to commence massive production of these diapers in the Group's joint venture with Hangzhou COCO Healthcare Products Co., Ltd (杭州可靠護理用品股份有限公司) ("COCO Healthcare") and the new products are planned to be launched for sale nationwide before the end of this year. The Group believes that the recent establishment of the BMcare Business Unit will enable its further expansion into the baby care product market.

At the end of the period under review, the number of the Group's VIP baby specialty stores, retail sales organizations and VIP pharmacies increased to 16,941, 5,659 and 1,900, respectively. As an important measure of the channel management to avoid excessive inventory, the Group continued to track inventory and sales of its products at the distributors' level. This has enabled the Group to maintain a sustainable business growth through an advanced real-time distribution management system. According to the real-time distribution management system, the average inventory turnover days of the Group's distributors was about 29 days in the first half of 2014.

The Mama100 membership continues to play a significant role in the Group's business. The average number of Mama100's active members increased by 20.4% year on year to 1,995,233 in the first half of 2014. In order to capitalize the emerging trend of online purchasing, the Group established an Online-to-Offline ("O2O") business model by integrating online ordering platforms and offline logistic resources of its VIP baby specialty stores. During the first half of 2014, O2O business contributed to 9% of the Group's total accumulated points. The Group now operates its O2O model on four ordering platforms, including Mama100 mobile APP, Mama100 WeChat Store, Mama100 Flagship Store on JD.COM and Mama100 Flagship Store on Tmall.com which was recently opened in June 2014. By the end of the first half of 2014, the combined number of Mama100 mobile APP users and Mama100 WeChat followers with registered accounts reached approximately 1.3 million. Currently around 14,000 member stores have joined the Group's O2O business, and the Group plans to select 3,000 stores from them to build O2O flagship stores, aiming to standardize service procedures and increase service efficiency to the final users through these stores.

In addition to the existing O2O business model, the Group has taken the decision to build strategic cooperation with the most renowned e-commerce platforms in China to carry out its Business-to-Customer ("B2C") business model. On 1 August 2014, JD.COM began to sell the Group's products in its proprietary platform. In order to increase brand exposure online, the Group will continue to cooperate with other popular e-commerce platforms and will also progressively authorize online retail stores to sell the Group's products under certain unified and standardized protocols. The Group believes that its online and offline businesses will complement each other, and the Group's multi-platform strategy will help capture the huge opportunities in e-commerce.

Enhancing brand equity plays an instrumental role to the sustainable success of the Group. Young mothers nowadays pursue both convenience and trends. Therefore, the Group has adapted its marketing strategy to meet these changes. In addition to advertising in traditional media, the Group also invests increasingly on marketing with new media such as internet TV platforms, search engines and social media network platforms, thus enabling the Group to maintain and improve the visibility of its premium brand image. The Group has recently launched a series of parenting shows named "Super Q Babies" on a renowned internet video website. In these parenting shows, celebrity couples are invited to share their nursing and parenting experience and promote accurate parenting methods. "Super Q Babies" is rated highly by the audiences, and the first two episodes recorded a viewership of more than 3 million each within one week after release. At the same time, the Group organizes offline parent-child activities for its Mama100 members from the same cities and encourages the participants to download Mama100 mobile APP and share their experiences of the event on the Group's online platforms. The Group will continue to host such online and offline events for its Mama100 members to enhance their loyalty and the traffic to its online platforms.

## PROSPECTS

Looking forward, infant formula market will continue to expand. According to Nielsen, the China infant formula market will grow at a CARG of 14% in the next three years, reaching a market size of RMB100 billion by 2016. At the same time, the promising prospects of this market keep attracting new entrants and thus the Group expects the competition remains intense. To capture the emerging business opportunities and cope with the challenging environment, the Group plans to take several strategic approaches. The Group will launch its new series of Adimil infant formula products and new baby diaper products as scheduled in the second half of 2014, aiming to address a new range of infant formula consumers and to expand its business to reach the broader baby diaper market, respectively. In view of the irreversible trend of on-line shopping, the Group will accelerate its deployment in the e-commerce channel, by improving customer experiences from the Group's O2O business model, seeking cooperation with other renowned on-line ecommerce platform to carry out the Group's B2C model and progressively authorizing on-line retail stores to sell the Group's products. To better cater nowadays young mothers' needs, the Group will continue to invest into new media and organize innovated customer communication events to win brand recognition. With the dedicated efforts ensured by each business unit, the Group is confident that its long-term growth can be sustained.

## RESULTS OF OPERATION

### Revenue

For the six months ended 30 June 2014, revenue increased by 6.2% to RMB2,189.0 million as compared with the same period of 2013. This was mainly attributable to the continuous growth of sales generated from infant formulas. The following table sets forth the Group's revenue by product segment for the periods indicated:

	Six months ended 30 June 2014		Six months ended 30 June 2013	
	RMB'000	% of Revenue	RMB'000	% of Revenue
Infant formulas	1,858,928	84.9%	1,682,183	81.6%
Probiotic supplements	186,235	8.5%	228,306	11.1%
Dried baby food and nutrition supplements	70,597	3.3%	87,550	4.2%
Baby care products	73,214	3.3%	63,442	3.1%
<b>Total</b>	<b>2,188,974</b>	<b>100.0%</b>	<b>2,061,481</b>	<b>100.0%</b>

### *Infant formulas*

Despite that the competition in China infant formula industry became more intense, during the six months ended 30 June 2014, the Group stabled the growth of infant formulas by 10.5% to RMB1,858.9 million compared with the same period last year. The revenue growth was mainly attributed to the increased sales volume driven by the sustained growth of Mama100 active members as well as the retail outlets expansion. Both high-tier and supreme-tier infant formulas reported growth, and respectively increased by 18.7% and 15.3% in terms of sales volume, and increased by 14.7% and 4.3% in terms of sales revenue, compared with the first half of 2013. The revenue from high-tier infant formulas accounted for 61.6% of total revenue of infant formulas for the six months ended 30 June 2014, increased by 2.3 percentage points from 59.3% for the comparable period in 2013. Sales of infant formulas under the brand Adimil maintained strong momentum during the first half of 2014, accounting for 19.3% of the Group's total revenue of infant formulas.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Probiotic supplements*

Revenue of probiotic supplements decreased by 18.4% from RMB228.3 million for the six months ended 30 June 2013 to RMB186.2 million for the six months ended 30 June 2014. The decrease was mainly due to insufficiency of dedicated efforts of the Group's sales force. With the completion of business unit restructuring by 30 June 2014, sales of probiotic supplements are expected to resume with increased focus from a separate team.

## *Dried baby food and nutrition supplements*

Revenue of dried baby food and nutrition supplements declined by 19.4% to RMB70.6 million for the six months ended 30 June 2014 compared with the same period of 2013. The decrease was mainly due to the cancellation of the production of DHA chews/soft capsules as the Group simplified the product portfolio.

## *Baby care products*

Revenue of baby care products increased by 15.4% to RMB73.2 million for the six months ended 30 June 2014 compared with the same period last year. The revenue growth of this segment represented an increase of sales volume in the Group's baby diapers products, supported by a range of marketing activities.

## **Gross profit and gross profit margin**

During the first half of 2014, the Group recorded gross profit at an amount of RMB1,345.6 million, which slightly decreased by 1.8% compared with the same period last year. Gross profit margin decreased from 66.4% for the six months ended 30 June 2013 to 61.5% for the same period of 2014. The decrease in gross profit margin mainly resulted from: (i) reduced ex-factory price by the Group to its distributors started from the second half of 2013; (ii) increased costs on customer rewarding programs, including awarding additional accumulation points to the infant formula customers started from the second half of 2013 and other marketing campaigns; (iii) the appreciation of Euro, the major currency the Group used when purchased goods from its overseas suppliers, against Renminbi, the functional currency of the Group; and (iv) impact of the product mix, in which products with higher gross profit margin took up a lower revenue proportion in the revenue portfolio compared with the same period last year.

## **Other income and gains**

Other income and gains for the six months ended 30 June 2014 amounted to RMB53.6 million, primarily consisting of the interest income of RMB49.0 million and others. Other income and gains decreased by 13.3% during the six months ended 30 June 2014 compared with the same period last year. The decrease was mainly due to a net exchange loss recorded in the first half of 2014 while a net exchange gain of RMB17.3 million recorded during the same period in 2013.

## **Selling and distribution costs**

Selling and distribution costs increased by 20.0% from RMB667.2 million for the six months ended 30 June 2013 to RMB800.4 million in the comparable period of 2014. The increase was primarily as a result of (i) increased advertising and brand building costs for the promotion of Adimil, the Group's new infant formula brand; and (ii) increased expenditure on the recruitment, training and other related costs as a result of the Group's business unit restructuring. The increase of selling expenses was partially offset by the saving on the transportation expense due to the enhancement on operation efficiency. As a result, the selling and distribution costs as a percentage of revenue increased from 32.4% in the first half of 2013 to 36.6% for the comparable period of 2014. The Group believes the increase in selling and distribution costs is necessary to the long-term growth of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Administrative expenses

For the six months ended 30 June 2014, the Group recorded an administrative expense of RMB86.1 million, representing an increase of 9.3% from RMB78.8 million compared with the corresponding period of 2013. The percentage of administrative expense as to revenue increased slightly from 3.8% for the six months ended 30 June 2013 to 3.9% for the six months ended 30 June 2014. The increase was mainly driven by the increased depreciation and amortisation in the newly acquired plant facilities and production permit in Changsha Adimil.

## Other expenses

Other expenses for the six months ended 30 June 2014 amounted to RMB39.0 million, primarily consisting of net exchange loss of RMB11.3 million, R&D expenses of RMB21.9 million and others. The Group devoted to delivering safe and science-based products and services to satisfy Chinese customers' needs. Therefore, the Group recruited additional experienced and innovated R&D staff as well as enlarged scientific cooperation with European infant formula suppliers during the six months ended 30 June 2014.

## Finance costs

During the six months ended 30 June 2014, the Group incurred finance costs of RMB40.3 million, including bank loan interests of RMB8.1 million and non-cash interest expense of Convertible Bonds (as defined below) of RMB32.2 million.

## Income tax expense

Income tax expense decreased by 38.4% from RMB196.5 million for the first half of 2013 to RMB121.1 million in the comparable period of 2014. The effective tax rate declined from 39.8% for the six months ended 30 June 2013 to 27.9% for the same period of 2014. During the first half of 2013, the Group incurred a one-off expense of a fine amounting to RMB162.9 million, which is subject to income tax under the PRC tax rules. No such item was recorded in the period under review, reducing effective income tax rate by 8.2 percentage points. As the Company was successfully recognized as a resident of Hong Kong under the "Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排)", the Group substantially reduced its effective tax rate by lowering the withholding tax on distribution of retained profits from the Company's subsidiaries in Mainland China.

## Profit for the period

During the six months period ended 30 June 2014, the Group recorded profit after tax at RMB312.2 million, representing an increase of 4.9% from RMB297.5 million in the comparable period last year.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating activities

For the six months ended 30 June 2014, the Group had net cash used in operating activities of RMB193.0 million, consisting of cash generated from operations of RMB101.9 million, partially offset by income tax paid of RMB294.9 million. The Group's cash from operations consisted of cash flow from operating activities of RMB454.0 million before working capital adjustments and net negative changes in working capital of RMB352.1 million. The difference between the profit for the six months ended 30 June 2014 and the net cash used in operating activities mainly reflected the increase in inventories and the decrease in trade and bills payables, other payables and accruals.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Investing activities

For the six months ended 30 June 2014, net cash used in investing activities amounted to RMB582.8 million. The Group's net cash outflows for investing activities mainly consisted of increase in time deposits of RMB544.7 million and cash payment for an investment in an associate of RMB40.0 million.

## Financing activities

During the first half of 2014, net cash generated in financing activities amounted to RMB1,836.7 million. It primarily reflected proceeds from issuing Convertible Bonds (as defined below) of RMB2,414.4 million, partially offset by distribution of the final and final special dividends for the year ended 31 December 2013 of RMB368.4 million and repayment of bank loans of RMB211.1 million.

## Cash and bank balances

As of 30 June 2014, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB2,748.2 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB1,377.5 million, the Group's cash and bank balances amounted to RMB4,125.7 million as of 30 June 2014.

## Convertible bonds and interest-bearing bank loans

On 20 February 2014, the Company issued zero coupon convertible bonds (the "Convertible Bonds") due 20 February 2019 in the aggregate principal amount of HK\$3,100.0 million. The bonds are convertible into shares of the Company at an initial conversion price of HK\$90.84 per share prior to 20 February 2019 by the bond holders, or are subject to call for redemption by the bond issuer under certain conditions. The net proceeds from the issue of the Convertible Bonds, after deduction of commissions and expenses are all intended to be used by the Company to finance expansion of existing businesses and general corporate purposes. As of 30 June 2014, no Convertible Bonds were converted into shares of the Company and the carrying amount of the Convertible Bonds was RMB2,379.6 million. The Group's outstanding interest-bearing bank loans amounted to RMB539.5 million as of 30 June 2014. The loans are payable within one year. Taking the Convertible Bonds and interest-bearing bank loans into consideration, the gearing ratio was 45.4%. The gearing ratio is calculated by dividing the Convertible Bonds and interest-bearing bank loans by total assets.

## Inventories

	<b>30 June 2014 RMB'000</b>	31 December 2013 RMB'000
Raw materials	<b>628,175</b>	445,516
Raw materials in transit	<b>365,981</b>	375,522
Work in progress	<b>10,897</b>	2,881
Finished goods	<b>108,357</b>	147,974
Total	<b>1,113,410</b>	971,893

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

Note:

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

# MANAGEMENT DISCUSSION AND ANALYSIS

The turnover days of inventories was normally 160 to 180 days. Due to (i) the Group's sales fell below the management's target during the first half of 2014; and (ii) the Group stored up infant formulas under Adimil brand to satisfy the increasing market demand, the average turnover days of inventories increased to 223 days from 167 days for the first half of 2013. However, the Group endeavored to maintain a healthy inventory situation at distributor's level to avoid excess inventory and deep discounting. According to the Group's sophisticated real-time distribution management system, the average inventory turnover days at the distributor's level remained stable at 29 days during the six months ended 30 June 2014, which is the same as that of the first half of 2013. The Group is confident that it will better manage its turnover days of inventories through the business unit structuring and innovative marketing activities.

## COMMITMENTS

Details of the Group's commitments are stated in note 36 to the interim condensed consolidated financial statements.

## CONTINGENT LIABILITIES

As of 30 June 2014, the Group did not have any material contingent liabilities.

## CHARGE OF ASSETS

None of the Group's assets was pledged as of 30 June 2014.

## FOREIGN CURRENCY RISKS

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the unit's functional currencies. A majority 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\$, US\$ and Euro. In addition, the Group has investments denominated in Euro, provided loans to suppliers denominated in US\$ and DKK and borrowed bank loans in HK\$ and US\$.

The Group did not enter into any foreign exchange forward contracts to hedge against foreign exchange fluctuations. 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.

## SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the six months ended 30 June 2014, the Group invested RMB40.0 million to set up an associate with COCO Healthcare. The Group will continue to seek opportunities to acquire and work with international suppliers and other business partners in order to generate more returns to its shareholders. There was no plan authorised by the board (the "Board") of directors (the "Directors") of the Company for any material investments or additions of capital assets as at the date of this interim report.

## HUMAN RESOURCES

As at 30 June 2014, the Group had approximately 3,200 employees (31 December 2013: approximately 3,000 employees) in Mainland China, Hong Kong and France. Total staff costs, including directors emoluments, for the period amounted to approximately RMB351.7 million (six months ended 30 June 2013: RMB343.8 million).

In order to support its growth, the Group has been steadily increasing the investment in developing and retaining its right talent, offering them with competitive compensation, various training and education opportunities. Also, since the Company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group has gradually developed and implemented an incentive system to attract and retain talented staff. Up to 30 June 2014, the Group had in total granted 15,782,130 share options under the Pre-IPO Share Option Scheme and Share Option Scheme (as respectively defined below), 6,107,902 shares under the Share Award Scheme (as defined below), and 1,265,644 shares under the 2013 Share Award Scheme (as defined below), respectively.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance. Except for the deviations from code provision A.2.1 as disclosed below, the Company has complied with the code provisions contained in the CG Code for the six months ended 30 June 2014.

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

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2014.

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

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the six months ended 30 June 2014.

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

## AUDIT COMMITTEE

The audit committee of the Board (the “Audit Committee”) was established on 25 November 2010 in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three members, namely Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Mr. Luo Yun, all of whom are non-executive Directors and the majority of whom are independent non-executive Directors. Dr. Ngai Wai Fung, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

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

The Audit Committee has held meetings to discuss the auditing, internal controls and financial reporting matters including the review of this interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014.



## REMUNERATION COMMITTEE

The Remuneration Committee was established on 25 November 2010 with written terms of reference in compliance with the CG Code. The Remuneration Committee consists of three members, namely Mr. Tan Wee Seng, Mr. Luo Fei and Dr. Ngai Wai Fung, the majority of whom are independent non-executive Directors. Mr. Tan Wee Seng was appointed as the chairman of the Remuneration Committee.

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

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

## NOMINATION COMMITTEE

The Nomination Committee was established on 25 November 2010 with written terms of reference in compliance with the CG Code. The chairman is Mr. Luo Fei, an executive Director, and the two other members are Dr. Ngai Wai Fung and Mr. Tan Wee Seng, both of whom are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy adopted on 20 August 2013, including but not limited to gender, race, language, cultural background, educational background, industry experience and functional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

The last shareholders' meeting was the annual general meeting held on 8 May 2014 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. All proposed ordinary resolutions were passed by way of poll at the meeting.

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

## REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of this interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014.

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have not been audited but have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

## 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 SCHEMES (CONTINUED)

### Share Option Scheme

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

No share options (the “Share Options”) under the Share Option Scheme were granted to any grantees (the “Grantees”) during the six months ended 30 June 2014.

Particulars and movements of Share Options under the Share Option Scheme during the six months ended 30 June 2014 by category of Grantees were as follows:

Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per share	Number of Share Options				Outstanding as at 30 June 2014
			Outstanding as at 1 January 2014	Granted during the six months ended 30 June 2014	Exercised during the six months ended 30 June 2014	Lapsed during the six months ended 30 June 2014	
<b>Directors</b>							
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
<b>Sub-total</b>			<b>300,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>300,000</b>
Other employees	09/06/2011	HK\$15.312	704,918	-	(80,357) <sup>(1)</sup>	(16,351)	608,210
	29/11/2011	HK\$11.52	747,795	-	(74,342) <sup>(2)</sup>	(23,691)	649,762
	01/06/2012	HK\$19.64	582,579	-	(43,184) <sup>(3)</sup>	(51,736)	487,659
	07/12/2012	HK\$24.70	1,183,361	-	(85,187) <sup>(4)</sup>	(36,939)	1,061,235
<b>Total</b>			<b>3,518,653</b>	<b>-</b>	<b>(283,070)</b>	<b>(128,717)</b>	<b>3,106,866</b>

*Note 1:* The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$51.36.

*Note 2:* The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$49.73.

*Note 3:* The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$50.99.

*Note 4:* The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$51.36.

## SHARE OPTION SCHEMES (CONTINUED)

### Share Option Scheme (Continued)

All Share Options granted since the adoption of the Share Option Scheme till 30 June 2014 shall vest in the Grantees in accordance with the timetable below with a 6-year exercise period (for this purpose, the date or each such date on which the Share Options are to vest being hereinafter referred to as a "Vesting Date"):

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

No Share Options granted under the Share Option Scheme were cancelled during the six months ended 30 June 2014.

### 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:

- the subscription price per share for all options granted under the Pre-IPO Share Option Scheme ("Pre-IPO Share Options") is HK\$2.53;
- the total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further options will be granted under the Pre-IPO Share Option Scheme on or after 17 December 2010, the date of the listing of the shares of the Company on the Main Board of the Stock Exchange (the "Listing Date");
- all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

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

- there is a 6-year exercise period for each Pre-IPO Share Options.

## SHARE OPTION SCHEMES (CONTINUED)

### Pre-IPO Share Option Scheme (Continued)

A total of 11,150,249 Pre-IPO Share Options were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HK\$1.00 paid by each grantee. During the six months ended 30 June 2014, 4 employees were no longer eligible for Pre-IPO Share Options due to their failure to meet performance target or retirement, and as a result, a total of 64,595 Pre-IPO Share Options lapsed. Particulars and movements of Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the six months ended 30 June 2014 by category of grantees are set out below:

Category of grantees	Number of Pre-IPO Share Options			Outstanding as at 30 June 2014
	Outstanding as at 1 January 2014	Exercised during the six months ended 30 June 2014	Lapsed during the six months ended 30 June 2014	
<b>Directors</b>				
Mr. Luo Fei	621,239	—	—	621,239
Ms. Kong Qingjuan	381,558	—	—	381,558
<b>Sub-total</b>	<b>1,002,797</b>	<b>—</b>	<b>—</b>	<b>1,002,797</b>
<b>Others</b>				
Senior management members	2,655,665	(704,098) <sup>(1)</sup>	—	1,951,567
Other employees	5,420,261	(1,025,863) <sup>(2)</sup>	(64,595)	4,329,803
Business partners	100,000	—	—	100,000
<b>Sub-total</b>	<b>8,175,926</b>	<b>(1,729,961)</b>	<b>(64,595)</b>	<b>6,381,370</b>
<b>Total</b>	<b>9,178,723</b>	<b>(1,729,961)</b>	<b>(64,595)</b>	<b>7,384,167</b>

*Note 1:* The weighted average closing price of these shares immediately before the dates on which the relevant Pre-IPO Share Options were exercised is HK\$51.77.

*Note 2:* The weighted average closing price of these shares immediately before the dates on which the relevant Pre-IPO Share Options were exercised is HK\$51.61.

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were cancelled during the six months ended 30 June 2014.

## SHARE AWARD SCHEME

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

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

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

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

Details of the Share Award Scheme are set out in the Company’s announcements dated 28 November 2011 and 30 March 2012.

During the six months ended 30 June 2014, the Board neither granted any awarded shares to eligible persons under the Share Award Scheme nor arranged any funds to be paid to the trustee of the Share Award Scheme for purchasing of shares of the Company on the Stock Exchange. The trustee of the Share Award Scheme did not purchase any shares of the Company on the Stock Exchange during the six months ended 30 June 2014.

## SHARE AWARD SCHEME (CONTINUED)

Summary of particulars of the shares awarded under the Share Award Scheme (the “Awarded Shares”) during the six months ended 30 June 2014 are set out below:

Date of grant	Number of Awarded Shares granted	Approximate percentage of the Company's share capital as at the Adoption Date	Vesting date	Number of Awarded Shares		
				Vested as at 30 June 2014	Forfeited as at 30 June 2014	Outstanding (held by the trustee for the grantees) as at 30 June 2014
25 March 2013	1,239,887 <sup>(1)</sup>	0.206%	25 March 2014	1,086,666	(153,221)	–
21 October 2013	817,394 <sup>(2)</sup>	0.136%	30 November 2014	–	(26,500)	790,894
<b>Total</b>	<b>2,057,281</b>	<b>0.342%</b>		<b>1,086,666</b>	<b>(179,721)</b>	<b>790,894</b>

*Note 1:* Among these Awarded Shares granted, 30,500 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 18,000 Awarded Shares were granted to Ms. Kong Qingjuan, the Chief Operating Officer and an executive Director.

*Note 2:* Among these Awarded Shares granted, 15,500 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 9,500 Awarded Shares were granted to Ms. Kong Qingjuan, the Chief Operating Officer and an executive Director.

## 2013 SHARE AWARD SCHEME

The Board also adopted a 2013 share award scheme (the “2013 Share Award Scheme”) on 29 November 2013, which is implemented in parallel with the Share Award Scheme. The purposes of the 2013 Share Award Scheme are to recognize the contributions by certain employees of the Group, to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The Board may from time to time at its absolute discretion select any employee who is eligible to participate in the 2013 Share Award Scheme (the “Selected Employee”) or a group of Selected Employees for participation in the 2013 Share Award Scheme. Subject to the limit on the size of the 2013 Share Award Scheme as set out below, the Board shall (a) determine a number of awarded shares which it wishes to be the subject of an award under the 2013 Share Award Scheme, or (b) instruct the trustee to allocate Returned Shares (as defined below) as awarded shares to any Selected Employee(s).

For the purpose of satisfying awards granted under the 2013 Share Award Scheme, awarded shares shall be allotted and issued at par value by the Company, by using the general mandate granted to the Board by the shareholders of the Company in general meetings of the Company from time to time, unless separate shareholders' approval is obtained in a general meeting of the Company.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## 2013 SHARE AWARD SCHEME (CONTINUED)

Subsequent to the grant of awards, the Board shall pay (or cause to be paid) sufficient funds to the trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside for the subscription of the relevant awarded shares. After receiving the funds from the Company, the trustee shall apply the same towards the subscription of awarded shares at par at such time as agreed between the trustee and the Board from time to time but in any event no later than 40 business days before the vesting of the relevant awarded shares.

Such awarded shares shall then be held by the trustee for the Selected Employees in accordance with the provisions of the 2013 Share Award Scheme prior to vesting. The trustee shall not exercise any voting right attached in respect of any awarded shares held in trust by it under the 2013 Share Award Scheme (including but not limited to the awarded shares and any bonus shares and script shares derived from them).

Where, awarded shares (the "Returned Shares") which are referable to a Selected Employee, do not vest in accordance with the specified procedures, then the trustee shall hold such Returned Shares and any income deriving from it exclusively for the benefit of all or one or more of the Selected Employees in such manners and under such conditions in accordance with the instructions from the Board.

The Board shall not make any further award which will result in the number of shares awarded by the Board under the 2013 Share Award Scheme would represent in excess of 1.5% of the issued share capital of the Company as at the adoption date of the same. No sum of money shall be set aside and no awarded shares shall be subscribed pursuant to the 2013 Share Award Scheme, nor any amounts paid to the trustee for the purpose of making such a subscription, if, as a result of such subscription, the number of awarded shares administered under the 2013 Share Award Scheme would represent in excess of 1% of the issued share capital of the Company as at the adoption date of the same, provided that awarded shares which have been transferred to Selected Employees upon vesting shall be left out of account when ascertaining such amount and provided further that the Board may resolve to increase such limit at its sole discretion.

The maximum number of awarded shares which may be subject to award(s) to a single Selected Employee at any one time shall not in aggregate exceed 1% of the issued share capital of the Company as at the adoption date of the 2013 Share Award Scheme.

On 22 April 2014, the Board has resolved to grant awards comprising a total of 1,265,644 awarded shares (the "2014 Batch 1 Awarded Shares") to 886 Selected Employees by way of allotment of new Shares pursuant to the 2013 Share Award Scheme and the general mandate granted by the shareholders of the Company at the annual general meeting held on 9 May 2013. On 28 April 2014, the Stock Exchange granted the listing of, and permission to deal in the 2014 Batch 1 Awarded Shares.

Summary of particulars of the 2014 Batch 1 Awarded Shares during the six months ended 30 June 2014 are set out below:

Date of grant	Number of Awarded Shares granted	Approximate percentage of the Company's share capital as at the adoption date of the 2013 Share Award Scheme	Vesting date	Number of awarded shares		
				Vested as at 30 June 2014	Forfeited as at 30 June 2014	Outstanding (held by the trustee for the Selected Employees) as at 30 June 2014
22 April 2014	1,265,644	0.2101%	23 December 2014	-	(20,391)	1,245,253

As of 30 June 2014, the 2014 Batch 1 Awarded Shares have not been allotted or issued by the Company to the trustee of the 2013 Share Award Scheme yet. Pursuant to the 2013 Share Award Scheme, the 2014 Batch 1 Awarded Shares shall be subscribed by the trustee no later than 40 business days before the abovementioned vesting date.



# CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2014, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong, 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 6)
Luo Fei	Beneficial owner	Long position	621,239 (Note 1)	0.1028%
	Beneficial owner	Long position	198,000 (Note 2)	0.0328%
	Beneficiary of a trust	Long Position	450,000,000 (Note 3)	74.4655%
Luo Yun	Beneficiary of a trust	Long Position	450,000,000 (Note 3)	74.4655%
Kong Qingjuan	Beneficial owner	Long position	381,558 (Note 1)	0.0631%
	Beneficial owner	Long position	102,500 (Note 4)	0.0170%
Ngai Wai Fung	Beneficial owner	Long position	100,000 (Note 5)	0.0165%
Tan Wee Seng	Beneficial owner	Long position	100,000 (Note 5)	0.0165%
Xiao Baichun	Beneficial owner	Long position	100,000 (Note 5)	0.0165%

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

*Note 2:* These are the Awarded Shares granted by the Company under the Share Award Scheme, including 97,000 Awarded Shares granted on 30 March 2012, 55,000 Awarded Shares granted on 3 July 2012, 30,500 Awarded Shares granted on 25 March 2013 and 15,500 Awarded Shares granted on 21 October 2013. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" above.

*Note 3:* As at 30 June 2014, Biostime Pharmaceuticals (China) Limited was owned as to 47.71% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 59.00% by Flying Company Limited and 41.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited.

UBS Trustees (BVI) Limited, the trustee of each of the family trusts set up by Mr. Luo Fei as the settlor (the "Mr. Luo Fei's Family Trust") and Mr. Luo Yun as the settlor (the "Mr. Luo Yun's Family Trust"), through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY (CONTINUED)**

*Note 4:* These are the Awarded Shares granted by the Company under the Share Award Scheme, including 46,000 Awarded Shares granted on 30 March 2012, 29,000 Awarded Shares granted on 3 July 2012, 18,000 Awarded Shares granted on 25 March 2013 and 9,500 Awarded Shares granted on 21 October 2013. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" above.

*Note 5:* These are the Shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 16 December 2011. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.

*Note 6:* As at 30 June 2014, the total number of the issued shares of the Company was 604,307,031.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2014.

Save as disclosed above, at no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under eighteen years old) to hold any interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

## **INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS**

So far as is known to the Company, as at 30 June 2014, the following persons, other than any Director or the chief executive of the Company, were the substantial shareholders (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:

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Name	Capacity/Nature of interest	Long/Short position	Number of shares	Approximate percentage of shareholding (Note 2)
Biostime Pharmaceuticals (China) Limited (Note 1)	Beneficial owner	Long position	450,000,000	74.4655%
Flying Company Limited (Note 1)	Interest in a controlled corporation	Long position	450,000,000	74.4655%
Sailing Group Limited (Note 1)	Interest in a controlled corporation	Long position	450,000,000	74.4655%
Coliving Limited (Note 1)	Interest in a controlled corporation	Long position	450,000,000	74.4655%
UBS Trustees (BVI) Limited (Note 1)	Trustee	Long position	450,000,000	74.4655%

Note 1: As at 30 June 2014, Biostime Pharmaceuticals (China) Limited was owned as to 47.71% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 59.00% by Flying Company Limited and 41.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited.

UBS Trustees (BVI) Limited, the trustee of each of the Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust, through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company.

Note 2: As at 30 June 2014, the total number of the issued shares of the Company was 604,307,031.

Save as mentioned above, as at 30 June 2014, 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.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## CHANGES IN INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

### Changes in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company during the six months ended 30 June 2014 are set out below:

Name of Director	Details of Changes
Luo Fei	<ol style="list-style-type: none"><li>1. Appointed on 29 January 2014 as a director of the Company's directly wholly-owned subsidiary Guangzhou Hapai Information Technology Co., Ltd.* (廣州市合愛信息技術有限公司), ("Guangzhou Hapai"), a limited liability company established in the PRC on 29 January 2014.</li><li>2. Appointed on 8 November 2013 as a director of Guangzhou Mama100 E-commerce Co., Limited* (廣州市媽媽一百電子商務有限公司), ("Mama100 E-commerce"), a limited liability company established in the PRC on 8 November 2013 and has been controlled by the Group through a series of structure contracts (for details in relation to such structure contracts, please refer to the announcement of the Company dated 30 June 2014), since 27 June 2014.</li></ol>
Kong Qingjuan	<ol style="list-style-type: none"><li>1. Appointed as a supervisor of Guangzhou Hapai on 29 January 2014.</li><li>2. Appointed as a supervisor of Mama100 E-commerce on 8 November 2013.</li></ol>
Wu Xiong	Appointed as a director of Mama100 E-commerce on 8 November 2013.
Luo Yun	Appointed as a director of Guangzhou Hapai on 29 January 2014.
Chen Fufang	<ol style="list-style-type: none"><li>1. Appointed as a director of Guangzhou Hapai on 29 January 2014.</li><li>2. Appointed as a director of Mama100 E-commerce on 8 November 2013.</li></ol>
Ngai Wai Fung	Appointed as an independent non-executive director and a member of Audit Committee and Safety, Health and Environment Protection Committee of China Railway Group Limited (a joint stock limited company incorporated in the PRC with limited liability) on 26 June 2014, the A shares of which are listed on the Shanghai Stock Exchange and the H shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 390).

*The English translation of company names in Chinese marked with "\*" is for identification purpose only.*

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

## **DIVIDEND**

The Board has resolved to declare an interim dividend of HK\$0.26 per ordinary share, representing approximately 40.0% of the Group's profit available for distribution for the period of six months ended 30 June 2014. The interim dividend will be paid on or about Monday, 15 September 2014 to the shareholders whose names appear on the register of members of the Company on Monday, 8 September 2014.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 4 September 2014 to Monday, 8 September 2014, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 3 September 2014.



## **To the board of directors of Biostime International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

### **INTRODUCTION**

We have reviewed the accompanying interim condensed consolidated financial statements of Biostime International Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 30 to 66, which comprise the interim condensed consolidated statement of financial position as at 30 June 2014, the interim condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board.

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

### **SCOPE OF REVIEW**

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

## CONCLUSION

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

### **Ernst & Young**

*Certified Public Accountants*

22/F, CITIC Tower  
1 Tim Mei Avenue,  
Central, Hong Kong

19 August 2014

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
<b>REVENUE</b>	5	<b>2,188,974</b>	2,061,481
Cost of sales		<b>(843,373)</b>	(691,884)
Gross profit		<b>1,345,601</b>	1,369,597
Other income and gains	5	<b>53,559</b>	61,780
Selling and distribution costs		<b>(800,380)</b>	(667,220)
Administrative expenses		<b>(86,059)</b>	(78,782)
Other expenses		<b>(38,999)</b>	(24,908)
Finance costs	6	<b>(40,346)</b>	(3,573)
Fine on the violation of Anti-Monopoly Law	7	–	(162,900)
Share of profits and losses of an associate	19	<b>(42)</b>	–
<b>PROFIT BEFORE TAX</b>	8	<b>433,334</b>	493,994
Income tax expense	9	<b>(121,111)</b>	(196,487)
<b>PROFIT FOR THE PERIOD</b>		<b>312,223</b>	297,507
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<b>(2,076)</b>	495
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>310,147</b>	298,002
Profit attributable to owners of the parent		<b>312,223</b>	297,507
Total comprehensive income attributable to owners of the parent		<b>310,147</b>	298,002
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	11	<b>RMB</b>	RMB
Basic		<b>0.52</b>	0.50
Diluted		<b>0.51</b>	0.49

Details of the dividends declared and paid for the period are disclosed in note 10 to interim condensed consolidated financial statements.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	378,959	326,187
Prepaid land lease payments	13	63,982	64,721
Goodwill	14	76,000	76,000
Intangible assets	15	106,453	109,889
Bonds receivable	16	97,809	98,092
Loans receivable	17	69,992	85,497
Deposits	18	6,433	14,755
Investment in an associate	19	39,958	–
Held-to-maturity investment	20	21,179	21,240
Time deposits	24	1,377,525	854,874
Deferred tax assets	29	105,896	123,892
Total non-current assets		2,344,186	1,775,147
<b>CURRENT ASSETS</b>			
Inventories	21	1,113,410	971,893
Trade and bills receivables	22	16,666	15,182
Prepayments, deposits and other receivables	23	170,577	110,935
Due from directors		–	2,000
Loans receivable	17	33,735	27,090
Derivative financial instrument	17	5,991	5,936
Restricted bank deposits	24	–	70,000
Cash and cash equivalents	24	2,748,174	1,662,836
Total current assets		4,088,553	2,865,872
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	25	264,585	361,634
Other payables and accruals	26	607,584	719,838
Interest-bearing bank loans	27	539,512	750,613
Tax payable		57,524	212,725
Total current liabilities		1,469,205	2,044,810
<b>NET CURRENT ASSETS</b>		2,619,348	821,062
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		4,963,534	2,596,209
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds	28	2,379,615	–
Deferred tax liabilities	29	44,066	80,616
Total non-current liabilities		2,423,681	80,616
<b>Net assets</b>		2,539,853	2,515,593
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Issued capital	31	5,177	5,161
Equity component of convertible bonds	28	66,978	–
Reserves		2,467,698	2,143,222
Proposed dividends		–	367,210
Total equity		2,539,853	2,515,593

**Luo Fei**  
Director

**Kong Qingjuan**  
Director

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2014

	Attributable to owners of the parent												Total RMB'000	
	Issued capital RMB'000	Equity component of convertible bonds RMB'000	Share premium account RMB'000	Shares held for the		Contributed surplus <sup>(1)</sup> RMB'000	Capital reserve <sup>(2)</sup> RMB'000	Statutory reserve <sup>(3)</sup> 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
				Share Award Scheme RMB'000	Share Award Scheme RMB'000									
At 1 January 2014	5,161	-	182,696	(67,167)	26,992	95	304,524	26,791	35,235	(59,743)	1,693,799	367,210	2,515,593	
Profit for the period	-	-	-	-	-	-	-	-	-	-	312,223	-	312,223	
Other comprehensive income for the period:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	2,076	-	-	2,076	
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	2,076	312,223	-	314,299	
Equity-settled share option Arrangements (note 32)	16	-	12,201	-	-	-	-	(2,027)	-	-	-	-	10,190	
Shares awarded under the Share Award Scheme (note 33)	-	-	-	25,043	-	-	-	-	(35,235)	-	11,374	-	1,182	
Issue of convertible bonds (note 28)	-	66,978	-	-	-	-	-	-	-	-	-	-	66,978	
Final 2013 dividend declared	-	-	-	-	-	-	-	-	-	-	(674) <sup>#</sup>	(209,834)	(210,508)	
Special 2013 dividend declared	-	-	-	-	-	-	-	-	-	-	(505) <sup>#</sup>	(157,376)	(157,881)	
At 30 June 2014 (Unaudited)	5,177	66,978	194,897 <sup>*</sup>	(42,124) <sup>*</sup>	26,992 <sup>*</sup>	95 <sup>*</sup>	304,524 <sup>*</sup>	24,764 <sup>*</sup>	- <sup>*</sup>	(57,667) <sup>*</sup>	2,016,217 <sup>*</sup>	-	2,539,853	
At 1 January 2013	5,161	-	390,649	(30,505)	26,992	95	167,307	16,716	22,985	(58,920)	1,368,215	413,957	2,322,652	
Profit for the period	-	-	-	-	-	-	-	-	-	-	297,507	-	297,507	
Other comprehensive income for the period:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	495	-	-	495	
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	495	297,507	-	298,002	
Equity-settled share option Arrangements (note 32)	-	-	-	-	-	-	-	5,066	-	-	-	-	5,066	
Shares purchased for the Share Award Scheme (note 33)	-	-	-	(33,895)	-	-	-	-	-	-	-	-	(33,895)	
Shares awarded under the Share Award Scheme (note 33)	-	-	-	-	-	-	-	-	23,604	-	-	-	23,604	
Final 2012 dividend declared	-	-	1,036 <sup>#</sup>	-	-	-	-	-	-	-	-	(189,933)	(188,897)	
Special 2012 dividend declared	-	-	1,221 <sup>#</sup>	-	-	-	-	-	-	-	-	(224,024)	(222,803)	
At 30 June 2013 (Unaudited)	5,161	-	392,906	(64,400)	26,992	95	167,307	21,782	46,589	(58,425)	1,665,722	-	2,203,729	

\* These reserve accounts comprise the consolidated reserves of RMB2,467,698,000 in the interim condensed consolidated statement of financial position as at 30 June 2014.

# Dividend income arising from the shares held for the Share Award Scheme is deducted from the aggregate of dividends proposed and paid. Dividend for the new shares issued under the share option arrangements is paid from the retained profits.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2014

## Notes:

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2014

		<b>Six months ended 30 June</b>	
		<b>2014</b>	2013
	Notes	<b>RMB'000</b>	RMB'000
		<b>(Unaudited)</b>	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>433,334</b>	493,994
Adjustments for:			
Bank interest income	5	<b>(45,352)</b>	(42,753)
Interest income from loans and bonds receivable	5	<b>(3,686)</b>	(1,175)
Finance costs	6	<b>40,346</b>	3,573
Depreciation	8	<b>20,589</b>	12,648
Amortisation of intangible assets	8	<b>3,436</b>	158
Amortisation of prepaid land lease payments	8	<b>739</b>	209
Write-down of inventories to net realisable value	8	<b>578</b>	443
Equity-settled share option expense	8	<b>2,737</b>	5,066
Equity-settled share award expense	8	<b>1,182</b>	23,604
Others		<b>71</b>	464
		<b>453,974</b>	496,231
Increase in inventories		<b>(142,095)</b>	(233,862)
Increase in trade and bills receivables		<b>(1,484)</b>	(4,017)
(Increase)/decrease in prepayments, deposits and other receivables		<b>(59,642)</b>	6,718
Decrease in amounts due from directors		<b>2,000</b>	–
(Decrease)/increase in trade and bills payables		<b>(97,049)</b>	24,246
(Decrease)/increase in other payables and accruals		<b>(53,604)</b>	283,397
(Increase)/decrease in rental deposits		<b>(218)</b>	7
Cash generated from operations		<b>101,882</b>	572,720
Corporate income tax paid		<b>(294,866)</b>	(307,042)
Net cash flows (used in)/from operating activities		<b>(192,984)</b>	265,678

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2014

		<b>Six months ended 30 June</b>	
		<b>2014</b>	<b>2013</b>
	Notes	<b>RMB'000</b> <b>(Unaudited)</b>	<b>RMB'000</b> <b>(Unaudited)</b>
Net cash flows (used in)/from operating activities		<b>(192,984)</b>	265,678
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		<b>(57,647)</b>	(42,195)
Proceeds from disposal of items of property, plant and equipment		<b>1,615</b>	55
Investment in an associate	19	<b>(40,000)</b>	–
Repayment of loans receivable		<b>8,860</b>	3,335
Interest received		<b>49,038</b>	43,928
(Increase)/decrease in time deposits with original maturity of three months or more when acquired	24	<b>(22,000)</b>	371,651
Increase in non-current time deposits	24	<b>(522,651)</b>	(52,118)
Net cash flows (used in)/from investing activities		<b>(582,785)</b>	324,656
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of convertible bonds		<b>2,414,370</b>	–
Exercise of Share Option Schemes	31	<b>7,453</b>	–
Purchase of shares held under the Share Award Scheme		–	(33,895)
New bank loans		–	134,625
Repayment of bank loans		<b>(211,101)</b>	–
Interest paid		<b>(5,591)</b>	(3,572)
Dividends paid to owners of the parent	10	<b>(368,389)</b>	(411,700)
Net cash flows from/(used in) financing activities		<b>1,836,742</b>	(314,542)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of period		<b>764,836</b>	400,615
Effect of foreign exchange rate changes, net		<b>2,365</b>	494
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	24	<b>1,828,174</b>	676,901

## 1. CORPORATE INFORMATION

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

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

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

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

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

- (i) exercise an effective financial and operational control over Mama100 E-commerce;
- (ii) exercise equity holders' voting rights of Mama100 E-commerce;
- (iii) receive substantially all of the economic interest returns generated by Mama100 E-commerce in consideration for the management and consulting services and licenses provided by the Group, and absorb the risk of losses from Mama100 E-commerce;
- (iv) obtain an irrevocable and exclusive right to purchase entire equity interest in Mama100 E-commerce from the respective equity holders for a consideration in the amount of RMB10,000, or when appraisal is required under PRC law, 1% of the appraisal price or at the lowest price permitted by then applicable PRC laws and regulations; and
- (v) obtain a pledge over the entire equity interest of Mama100 E-commerce from their respective equity holders as collateral security for all of Mama100 E-commerce payments due to the Group and to secure performance of Mama100 E-commerce's obligations under the Contractual Arrangements.

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 (the “period”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) and IAS 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group’s annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of the new and revised International Financial Reporting Standards (“IFRSs”) (which also include International Accounting Standards (“IASs”) and Interpretations) and the adoption of accounting policies to account for the investment in an associate and the convertible bonds as disclosed in note 3.1 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group’s annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2013.

### 3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current period’s condensed consolidated financial statements.

IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – <i>Investment Entities</i>
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation</i> – <i>Offsetting Financial Assets And Financial Liabilities</i>
IAS 39 Amendments	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> – <i>Amended by Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>

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

In addition, the Group has applied the following accounting policies for the investment in an associate and the convertible bonds during the period.

## 3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

### Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associate are included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investment in an associate.

The results of an associate are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investment in an associate are treated as non-current assets and are stated at cost less any impairment losses.

### Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.



## 3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	<i>Financial Instruments</i> <sup>4</sup>
IFRS 9, IFRS 7 and IAS 39 Amendments	Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 <sup>4</sup>
IFRS 11 Amendments	Amendments to IFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>2</sup>
IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>2</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>
IAS 16 and IAS 41 Amendments	Amendments to IAS 16 and IAS 41 <i>Bearer Plants</i> <sup>2</sup>
IAS 16 and IAS 38 Amendments	Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>2</sup>
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits – Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>
IAS 27 Amendments	Amendments to IAS 27 <i>Equity Method in Separate Financial Statements</i> <sup>2</sup>
IFRSs Amendments	<i>Annual Improvements to IFRSs 2010-2012 Cycle</i> <sup>1</sup>
IFRSs Amendments	<i>Annual Improvements to IFRSs 2011-2013 Cycle</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2018

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

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. During the second half of 2013, the Group changed the structure of its internal organisation and combined the dried baby food segment and the nutrition supplements segment into one reportable segment. After the restructuring, the Group has four reportable operating segments as follows:

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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

The corresponding items of segment information for the six months ended 30 June 2013 have been restated.

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

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

During the six months ended 30 June 2014 and 2013, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Six months ended 30 June 2014 (Unaudited)	Infant formulas RMB'000	Probiotic supplements RMB'000	Dried baby food and nutrition supplements RMB'000	Baby care products RMB'000	Unallocated RMB'000	Total RMB'000
<b>Segment revenue:</b>						
Sales to external customers	1,858,928	186,235	70,597	73,214	-	2,188,974
<b>Segment results</b>	1,146,085	133,367	32,468	33,681	-	1,345,601
<i>Reconciliations:</i>						
Interest income						49,038
Other income and unallocated gains						4,521
Corporate and other unallocated expenses						(925,480)
Finance costs						(40,346)
Profit before tax						433,334
<b>Other segment information:</b>						
Depreciation and amortisation	628	977	384	98	22,677	24,764
Write-down/(back) of inventories to net realisable value	200	17	63	298	-	578
Capital expenditure*	968	-	-	-	79,383	80,351

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2013 (Unaudited)	Infant formulas RMB'000	Probiotic supplements RMB'000	Dried baby food and nutrition supplements RMB'000 (Restated)	Baby care products RMB'000	Unallocated RMB'000	Total RMB'000
<b>Segment revenue:</b>						
Sales to external customers	1,682,183	228,306	87,550	63,442	–	2,061,481
<b>Segment results</b>						
Segment results	1,104,814	177,619	51,974	35,190	–	1,369,597
<i>Reconciliations:</i>						
Interest income						43,928
Other income and unallocated gains						17,852
Corporate and other unallocated expenses						(933,810)
Finance costs						(3,573)
Profit before tax						493,994
<b>Other segment information:</b>						
Depreciation and amortisation	394	1,098	517	76	10,930	13,015
Write-down/(back) of inventories to net realisable value	998	(34)	30	(551)	–	443
Capital expenditure*	–	314	154	11	28,408	28,887

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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 5. REVENUE, OTHER INCOME AND GAINS

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

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

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Revenue</b>		
Sale of goods	<b>2,188,974</b>	2,061,481
<b>Other income and gains</b>		
Bank interest income	<b>45,352</b>	42,753
Interest income from loans and bonds receivable	<b>3,686</b>	1,175
Foreign exchange gain	<b>–</b>	17,283
Service income	<b>1,036</b>	–
Others	<b>3,485</b>	569
	<b>53,559</b>	61,780

## 6. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Interest on bank loans	<b>8,123</b>	3,573
Interest on convertible bonds	<b>32,223</b>	–
	<b>40,346</b>	3,573

## 7. FINE ON THE VIOLATION OF ANTI-MONOPOLY LAW

On 6 August 2013, BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, received an Administrative Punishment Decision (the "Decision") issued by the National Development and Reform Commission of the PRC (the "NDRC"). According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of the Anti-Monopoly Law of the PRC (the "PRC AML") by providing fixed prices for its products in its distribution agreements with its distributors, and therefore should be subject to a fine in the amount of RMB162.9 million according to Article 46 of the PRC AML, which approximated to 6% of the sales of infant formula of the year 2012.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

## 8. PROFIT BEFORE TAX

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

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Cost of inventories sold	<b>842,795</b>	691,441
Depreciation	<b>20,589</b>	12,648
Amortisation of intangible assets	<b>3,436</b>	158
Amortisation of land lease payments	<b>739</b>	209
Research and development costs*	<b>21,922</b>	19,066
Minimum lease payments under operating leases in respect of buildings	<b>26,023</b>	20,575
Employee benefit expenses:		
Wages and salaries	<b>266,237</b>	268,423
Pension scheme contributions (defined contribution schemes)	<b>48,770</b>	35,356
Staff welfare and other expenses	<b>32,823</b>	11,361
Equity-settled share option expense	<b>2,737</b>	5,066
Equity-settled share award scheme expense	<b>1,182</b>	23,604
	<b>351,749</b>	343,810
Foreign exchange differences, net	<b>11,316</b>	(17,283)
Write-down of inventories to net realisable value#	<b>578</b>	443

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

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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 9. INCOME TAX

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Charge for the period		
Mainland China	136,850	206,908
Hong Kong	2,529	4,217
France	286	–
Deferred (note 29)	(18,554)	(14,638)
Total tax charge for the period	121,111	196,487

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

### Hong Kong profits tax

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

### PRC enterprise income tax

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the rate of 25% on the taxable profits for the periods, based on the existing legislation, interpretations and practices in respect thereof.

### France corporate income tax

France corporate income tax has been provided at the rate of 33.3% on the estimated assessable profits arising in France.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 10. DIVIDENDS

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Dividends on ordinary shares declared and paid during the period:		
Final dividend for 2013 – HK\$0.44 (2012: HK\$0.39) per ordinary share	<b>210,508</b>	188,897
Special dividend for 2013 – HK\$0.33 (2012: HK\$0.46) per ordinary share	<b>157,881</b>	222,803
	<b>368,389</b>	411,700
Dividends on ordinary shares declared after the interim reporting date:		
Interim dividend – HK\$0.26 (2013: HK\$0.25) per ordinary share	<b>124,501</b>	119,481
Special dividend – nil (2013: HK\$0.19) per ordinary share	<b>–</b>	90,806
	<b>124,501</b>	210,287

*Note:* The 2014 interim dividend on ordinary shares of RMB124,501,000 was calculated after the elimination of RMB271,000 for shares held for the Share Award Scheme (note 33).

On 19 August 2014, the board of directors declared an interim dividend of HK\$0.26 per ordinary share. As the interim dividend on ordinary shares was declared after the interim reporting date, such dividend was not recognised as liabilities as at 30 June 2014.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

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

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

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Earnings</b>		
Profit attributable to owners of the parent used in the basic earnings per share calculation	<b>312,223</b>	297,507
<b>Number of Shares</b>		
<b>Shares</b>		
Weighted average number of ordinary shares in issue	<b>603,114,820</b>	602,294,000
Weighted average number of shares purchased for the Share Award Scheme	<b>(2,083,223)</b>	(3,176,569)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<b>601,031,597</b>	599,117,431
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	<b>12,056,971</b>	13,898,917
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<b>613,088,568</b>	613,016,348

The calculation of the diluted earnings per share amount for the period is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares under the share option schemes and share award schemes. As the conversion or exercise of convertible bonds would have an antidilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of convertible bonds.

## 12. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment with an aggregate cost of RMB75,005,000 (six months ended 30 June 2013: RMB26,301,000). During the period, depreciation of RMB20,589,000 (six months ended 30 June 2013: RMB12,648,000) was charged and property, plant and equipment with an aggregate carrying amount of RMB1,644,000 (six months ended 30 June 2013: RMB78,000) was disposed of by the Group.



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 13. PREPAID LAND LEASE PAYMENTS

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Restated)
Carrying amount at 1 January	<b>66,199</b>	20,566
Acquisition of a subsidiary (note 34)	–	46,052
Recognised during the period/year	<b>(739)</b>	(419)
Carry amount at period/year end	<b>65,460</b>	66,199
Current portion included in prepayments, deposits and other receivables (note 23)	<b>(1,478)</b>	(1,478)
Non-current portion	<b>63,982</b>	64,721

The leasehold lands are situated in Mainland China and are held under a medium term lease.

## 14. GOODWILL

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Restated)
<b>Cost:</b>		
At 1 January	<b>76,000</b>	–
Acquisition of a subsidiary (note 34)	–	76,000
At period/year end	<b>76,000</b>	76,000
<b>Accumulated impairment:</b>		
At period/year end	–	–
<b>Net carrying amount:</b>		
At period/year end	<b>76,000</b>	76,000

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 15. INTANGIBLE ASSETS

	Computer software RMB'000	License RMB'000	Total RMB'000
<b>Cost:</b>			
At 1 January 2014 and 30 June 2014	<b>7,572</b>	<b>103,780</b>	<b>111,352</b>
<b>Accumulated amortisation:</b>			
At 1 January 2014	<b>1,463</b>	–	<b>1,463</b>
Amortisation provided during the period	<b>553</b>	<b>2,883</b>	<b>3,436</b>
At 30 June 2014	<b>2,016</b>	<b>2,883</b>	<b>4,899</b>
<b>Net carrying amount:</b>			
At 30 June 2014	<b>5,556</b>	<b>100,897</b>	<b>106,453</b>
<b>Cost:</b>			
At 1 January 2013	2,134	–	2,134
Additions during the year (Restated) (note 34)	5,438	103,780	109,218
At 31 December 2013	7,572	103,780	111,352
<b>Accumulated amortisation:</b>			
At 1 January 2013	983	–	983
Amortisation provided during the year	480	–	480
At 31 December 2013	1,463	–	1,463
<b>Net carrying amount:</b>			
At 31 December 2013 (Restated)	6,109	103,780	109,889

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 16. BONDS RECEIVABLE

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Bonds receivable	<b>97,809</b>	98,092

The Group entered into a Bond Subscription Agreement with Isigny Sainte Mère (“ISM”) on 30 July 2013, pursuant to which ISM would issue, and the Group would subscribe for 17,477,075 bonds, with a nominal value of EUR1 per bond, in three separate tranches, at the subscription price equal to the nominal value of the bonds. As at 30 June 2014, the Group has subscribed for 11,651,384 bonds.

The bonds bear interest at a rate of 5% per annum on the outstanding principal amount of the bonds. The maturity date of the bonds shall be 30 July 2023, 10 years from the date of the Bond Subscription Agreement.

## 17. LOANS RECEIVABLE

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Current portion of loans receivable	<b>33,735</b>	27,090
Loans receivable due after one year	<b>69,992</b>	85,497
Total loans receivable	<b>103,727</b>	112,587
Derivative financial instrument	<b>5,991</b>	5,936

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.

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Denominated in United States dollars (the “US\$”)	<b>33,765</b>	33,863
Denominated in Danish kroner (the “DKK”)	<b>69,962</b>	78,724
Total loans receivable	<b>103,727</b>	112,587

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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 18. DEPOSITS

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Deposits paid for the purchase of property, plant and equipment	<b>572</b>	9,112
Rental deposits	<b>5,861</b>	5,643
	<b>6,433</b>	14,755

## 19. INVESTMENT IN AN ASSOCIATE

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Unlisted shares, at cost	<b>40,000</b>	–
Share of net assets	<b>(42)</b>	–
	<b>39,958</b>	–

Particulars of the associate are as follows:

Name	Particulars of registered share capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Hangzhou Coamie Personal Care Products Co., Ltd.	Registered capital of RMB100 million	PRC/ Mainland China	40%	Manufacture, retail and import and export of baby diapers

The Group's shareholding in the associate comprises equity shares held through a wholly-owned subsidiary of the Company.

The following table illustrates the financial information of the Group's associate that is not material to the Group:

	<b>Six months ended 30 June 2014 RMB'000 (Unaudited)</b>	2013 RMB'000 (Unaudited)
Share of the associate's total loss for the period	<b>(42)</b>	–
Share of the associate's total comprehensive loss for the period	<b>(42)</b>	–
Carrying amount of the Group's investment in the associate	<b>39,958</b>	–

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 20. HELD-TO-MATURITY INVESTMENT

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Investment in ISM	<b>21,179</b>	21,240

Pursuant to the Framework Agreement entered into with ISM on 1 July 2013, Biostime Pharma, a wholly-owned subsidiary of the Group in France, subscribed for 504,585 shares in the share capital of ISM ("Subscription Shares") with a nominal value of EUR5 per share and representing 20% of the total issued share capital of ISM as enlarged by the issuance of the Subscription Shares. Biostime Pharma is the only non-cooperative shareholder of ISM, while all the other shareholders of ISM are cooperative shareholders. ISM undertakes to use the proceeds from issuance of Subscription Shares exclusively for the purpose of the financing of the infant formula production and packaging industrial facility.

In accordance with applicable law, the subscription price was determined as equivalent to the Subscription Shares' nominal value with no premium applicable. Pursuant to the Framework Agreement and the bylaws of ISM ("Bylaws"), in the event that the Subscription Shares are redeemed by ISM as a result of withdrawal by Biostime Pharma or exclusion of Biostime Pharma by ISM from ISM's share capital, the redemption price of the Subscription Shares shall be equal to the nominal value of the Subscription Shares.

Pursuant to the relevant French law and the Bylaws, notwithstanding the number of shares held by Biostime Pharma, the voting rights of Biostime Pharma (represented by its delegates), as a non-cooperative shareholder, shall not exceed 10% of all voting rights in the general meeting of shareholders of ISM.

## 21. INVENTORIES

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Raw materials	<b>628,175</b>	445,516
Raw materials in transit	<b>365,981</b>	375,522
Work in progress	<b>10,897</b>	2,881
Finished goods	<b>108,357</b>	147,974
	<b>1,113,410</b>	971,893

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 22. TRADE AND BILLS RECEIVABLES

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Trade receivables	<b>885</b>	475
Bills receivable	<b>15,781</b>	14,707
Less: Impairment provision	<b>–</b>	–
	<b>16,666</b>	15,182

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

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

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

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Within 1 month	<b>5,885</b>	7,605
1 to 3 months	<b>10,781</b>	7,576
Over 3 months	<b>–</b>	1
	<b>16,666</b>	15,182

None of the above assets is either past due or impaired. Receivables that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default. Customers who trade on credit terms are subject to credit verification procedures.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Restated)
Prepayments	<b>29,644</b>	26,538
Deposits	<b>1,871</b>	1,867
Other receivables	<b>117,833</b>	77,577
Prepaid expenses	<b>19,751</b>	3,475
Current portion of prepaid land lease payments (note 13)	<b>1,478</b>	1,478
	<b>170,577</b>	110,935

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.

## 24. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Cash and bank balances	<b>1,678,174</b>	824,836
Time deposits	<b>2,447,525</b>	1,762,874
	<b>4,125,699</b>	2,587,710
Less:		
Non-pledged time deposits with maturity date after one year	<b>(1,377,525)</b>	(854,874)
Restricted bank deposit for business combination	-	(70,000)
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	<b>2,748,174</b>	1,662,836
Less: Non-pledged time deposits with original maturity of three months or more when acquired	<b>(920,000)</b>	(898,000)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	<b>1,828,174</b>	764,836
Denominated in RMB (note)	<b>3,068,657</b>	2,382,215
Denominated in other currencies	<b>1,057,042</b>	205,495
	<b>4,125,699</b>	2,587,710

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

## 24. 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 or three 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.

## 25. TRADE AND BILLS PAYABLES

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Trade payables	<b>258,942</b>	354,760
Bills payables	<b>5,643</b>	6,874
	<b>264,585</b>	361,634

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

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Within 1 month	<b>261,112</b>	356,646
1 to 3 months	<b>3,008</b>	4,731
Over 3 months	<b>465</b>	257
	<b>264,585</b>	361,634

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



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 26. OTHER PAYABLES AND ACCRUALS

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Advances from customers	<b>8,491</b>	10,824
Salaries and welfare payables	<b>90,551</b>	126,773
Accruals	<b>281,881</b>	323,624
Other tax payables	<b>105,242</b>	127,130
Deferred income (note 30)	<b>102,489</b>	51,768
Other payables	<b>18,930</b>	79,719
	<b>607,584</b>	719,838

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

## 27. INTEREST-BEARING BANK LOANS

	30 June 2014			31 December 2013		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Unsecured bank loans	<b>HIBOR+2.25% -2.3%</b>	<b>On demand</b>	<b>391,820</b>	HIBOR+2.25%	On demand	568,941
Unsecured bank loans	<b>1.24%</b>	<b>On demand</b>	<b>147,692</b>	1.24%	On demand	146,292
Unsecured bank loans	-	-	-	2.87%	On demand	35,380
			<b>539,512</b>			750,613

As at 30 June 2014, all the Group's bank loans are denominated in HK\$ and USD at aggregate amounts of RMB333,375,000 (31 December 2013: RMB546,430,000) and RMB206,137,000 (31 December 2013: RMB204,183,000), respectively.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 28. CONVERTIBLE BONDS

On 20 February 2014, the Company issued zero coupon convertible bonds due 20 February 2019 with an aggregate principal amount of HK\$3,100,000,000. The convertible bonds became listed on the Stock Exchange since 21 February 2014. There was no movement in the number of these convertible bonds during the period.

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

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

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

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

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

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

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Nominal value of convertible bonds issued during the period	<b>2,460,625</b>	–
Equity component	<b>(66,978)</b>	–
Direct transaction costs attributable to the liability component	<b>(46,255)</b>	–
Liability component at the issuance date	<b>2,347,392</b>	–
Interest expense	<b>32,223</b>	–
Liability component	<b>2,379,615</b>	–

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 29. DEFERRED TAX

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

### Deferred tax assets

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2014	1,266	89,108	20,576	12,942	123,892
Credited/(charged) to the profit or loss for the period	165	(24,910)	(5,931)	12,680	(17,996)
At 30 June 2014	1,431	64,198	14,645	25,622	105,896
At 1 January 2013	324	56,370	13,649	8,345	78,688
Credited/(charged) to the profit or loss for the year	942	32,738	6,927	4,597	45,204
At 31 December 2013	1,266	89,108	20,576	12,942	123,892

### Deferred tax liabilities

	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000 (Restated)	Total RMB'000
At 1 January 2014	59,671	20,945	80,616
(Credited)/charged to the profit or loss for the period	(35,887) <sup>#</sup>	(663)	(36,550)
At 30 June 2014	23,784	20,282	44,066
At 1 January 2013	77,489	–	77,489
(Credited)/charged to the profit or loss for the year	(17,818) <sup>#</sup>	20,945	3,127
At 31 December 2013	59,671	20,945	80,616

<sup>#</sup> The amount as at 30 June 2014 represented a deferred tax provision of RMB5,900,000 (31 December 2013: RMB30,569,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB41,787,000 (31 December 2013: RMB48,387,000) arising from dividends declared by these subsidiaries to their foreign investors during the year.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 30. DEFERRED INCOME

	<b>Customer loyalty program RMB'000</b>
At 1 January 2014	<b>51,768</b>
Additions	<b>189,494</b>
Recognised as sales revenue during the period	<b>(138,773)</b>
At 30 June 2014	<b>102,489</b>
At 1 January 2013	33,381
Additions	555,907
Recognised as sales revenue during the year	(537,520)
At 31 December 2013	51,768

## 31. SHARE CAPITAL

	<b>30 June 2014 (Unaudited)</b>	31 December 2013 (Audited)
Authorised: 10,000,000,000 (31 December 2013: 10,000,000,000) ordinary shares of HK\$0.01 each	<b>HK\$100,000,000</b>	HK\$100,000,000
Issued and fully paid: 604,307,031 (31 December 2013: 602,294,000) ordinary shares of HK\$0.01 each	<b>HK\$6,043,070</b>	HK\$6,022,940
Equivalent to	<b>RMB5,177,000</b>	RMB5,161,000

During the period, the subscription rights attaching to 2,013,000 share options were exercised at the subscription price according to the share option schemes, resulting in the issue of 2,013,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$9,416,000 (equivalent to RMB7,453,000). Details of the Company's share options schemes and the share options exercised under the schemes are included in note 32.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 32. SHARE OPTION SCHEMES

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

### Pre-IPO Share Option Scheme

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

	Six months ended 30 June		2013	
	2014		2013	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	2.53	9,179	2.53	9,951
Forfeited during the period	2.53	(65)	2.53	(549)
Exercised during the period	2.53	(1,730)	2.53	–
At 30 June	2.53	7,384	2.53	9,402

The weighted average share price at the date of exercise for share options exercised under the Pre-IPO Share Option Scheme during the period was HK\$52.35 per share (Six months ended 30 June 2013: No share options were exercised).

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme as at 30 June 2014 are as follows:

Number of options '000	Exercise price HK\$ per share	Exercise period
1,024	2.53	17-12-13 to 17-12-16
2,726	2.53	17-12-14 to 17-12-16
3,634	2.53	17-12-15 to 17-12-16
7,384		

The Group recognised a share option expense related to share options under the Pre-IPO Share Option Scheme of RMB1,224,000 during the six months ended 30 June 2014 (six months ended 30 June 2013: RMB1,568,000).

The 1,730,000 share options exercised under the Pre-IPO Share Option Scheme during the period resulted in the issue of 1,730,000 ordinary shares of the Company and new share capital of HK\$17,300 (equivalent to RMB14,000) and share premium of HK\$4,360,000 (equivalent to RMB3,451,000) (before issue expenses). An amount of RMB3,433,000 was transferred from the share option reserve to the share premium account upon the exercise of these share options.

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 7,384,000 additional ordinary shares of the Company and additional share capital of HK\$74,000 (equivalent to RMB59,000) and share premium of HK\$18,608,000 (equivalent to RMB14,770,000) (before issue expenses).

At the date of approval of these interim condensed consolidated financial statements, the Company had 7,176,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.2% of the Company’s shares in issue as at that date.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 32. SHARE OPTION SCHEMES (CONTINUED)

### Share Option Scheme

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

	Six months ended 30 June			
	2014		2013	
	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	18.11	3,518	17.95	4,059
Forfeited during the period	19.05	(128)	15.40	(362)
Exercised during the period	17.80	(283)	–	–
At 30 June	18.10	3,107	18.16	3,697

The weighted average share price at the date of exercise for share options exercised under the Share Option Scheme during the period was HK\$50.87 per share (Six months ended 30 June 2013: No share options were exercised).

The exercise prices and exercise periods of the share options outstanding under the Share Option Scheme as at 30 June 2014 are as follows:

Number of options '000	Exercise price* HK\$ per share	Exercise period
131	15.312	17-12-13 to 17-12-16
150	11.52	17-12-13 to 17-12-16
90	12.12	17-12-13 to 17-12-16
125	19.64	17-12-13 to 17-12-16
266	24.70	17-12-13 to 17-12-16
204	15.312	17-12-14 to 17-12-16
214	11.52	17-12-14 to 17-12-16
90	12.12	17-12-14 to 17-12-16
156	19.64	17-12-14 to 17-12-16
341	24.70	17-12-14 to 17-12-16
273	15.312	17-12-15 to 17-12-16
286	11.52	17-12-15 to 17-12-16
120	12.12	17-12-15 to 17-12-16
207	19.64	17-12-15 to 17-12-16
454	24.70	17-12-15 to 17-12-16
<b>3,107</b>		

\* 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.

## 32. 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 RMB1,513,000 during the period (six months ended 30 June 2013: RMB3,498,000).

The 283,000 share options exercised under the Share Option Scheme during the period resulted in the issue of 283,000 ordinary shares of the Company and new share capital of HK\$2,830 (equivalent to RMB2,000) and share premium of HK\$5,036,000 (equivalent to RMB3,986,000) (before issue expenses). An amount of RMB1,331,000 was transferred from the share option reserve to the share premium account upon the exercise of these share options.

The exercise in full of the outstanding share options under the Share Option Scheme would, under the present capital structure of the Company, result in the issue of 3,107,000 additional ordinary shares of the Company and additional share capital of HK\$31,000 (equivalent to RMB25,000) and share premium of HK\$56,193,000 (equivalent to RMB44,603,000) (before issue expenses).

At the date of approval of these interim condensed consolidated financial statements, the Company had 2,906,000 share options outstanding under the Share Option Scheme, which represented approximately 0.5% of the Company's shares in issue as at that date.

## 33. SHARE AWARD SCHEMES

### Share Award Scheme

The share award scheme (the "Share Award Scheme") of the Company was adopted by the board of directors on 28 November 2011 (the "Adoption Date") and amended by the board of directors 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 of directors 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 of directors 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 of directors, the Share Award Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date.

During the period, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (during the six months ended 30 June 2013: RMB33,895,000).

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 33. SHARE AWARD SCHEMES (CONTINUED)

### Share Award Scheme (continued)

Summary of particulars of the shares granted under the Share Award Scheme (the “Awarded Shares”) during the period is as follows:

Date of grant	Outstanding awarded shares as at 31 December 2013	Fair value RMB	Vesting date	Number of Awarded Shares		
				Vested as at 30 June 2014	Forfeited during the period	Outstanding awarded shares as at 30 June 2014
25 March 2013	1,180,387	38,803,000	25 March 2014	(1,086,666)	(93,721)	-
21 October 2013	817,394	40,252,000	30 November 2014	-	(26,500)	790,894
<b>Total</b>	<b>1,997,781</b>	<b>79,055,000</b>		<b>(1,086,666)</b>	<b>(120,221)</b>	<b>790,894</b>

The Group recognised a share award expense of RMB1,182,000 during the period (six months ended 30 June 2013: RMB23,604,000).

1,086,666 shares held for the Share Award Scheme amounted to RMB25,043,000 were awarded upon vesting during the period (Six months ended 30 June 2013: nil). Share award reserve of RMB11,374,000 related to the forfeited Awarded Shares was transferred to retained profits upon vesting during the period (Six months ended 30 June 2013: nil).

At the date of approval of these financial statements, 790,894 outstanding Awarded Shares are held by the Trustee of the Share Award Scheme for relevant grantees; and 522,565 shares (including those Awarded Shares forfeited) are held by the Trustee and have yet to be awarded.

### 2013 Share Award Scheme

The board of directors of the Company has approved the adoption of the 2013 Share Award Scheme on 29 November 2013. The purposes of the 2013 Share Award Scheme remain the same as the Share Award Scheme. Subject to any early termination as may be determined by the board, the 2013 Share Award Scheme shall be valid and effective for a term of five years commencing on 29 November 2013.

The board of directors may from time to time at its absolute discretion select any employee who is eligible to participate in the 2013 Scheme or a group of selected employees for participation in the 2013 Scheme.

For the purpose of satisfying awards granted under the 2013 Share Award Scheme, awarded shares shall be allotted and issued at par value by the Company, by using the general mandate granted to the board of directors by the shareholders of the Company in general meetings of the Company from time to time, unless separate shareholders’ approval is obtained in a general meeting of the Company.

Subsequent to the grant of awards, the board of directors shall pay (or cause to be paid) sufficient funds (the “Referable Amount”) to the trustee (or as it shall direct) from the Group’s resources as soon as practicable following such funds being set aside for the subscription of the relevant awarded shares. After receiving the Referable Amount, the trustee shall apply the same towards the subscription of awarded shares at par at such time as agreed between the trustee and the board of directors from time to time but in any event no later than 40 business days before the vesting of the relevant Awarded Shares.



## 33. SHARE AWARD SCHEMES (CONTINUED)

### 2013 Share Award Scheme (continued)

Summary of particulars of the shares granted under the 2013 Share Award Scheme during the period is as follows:

Date of grant	Number of Awarded Shares granted	Fair value RMB	Vesting date	Number of Awarded Shares		
				Vested as at 30 June 2014	Forfeited as at 30 June 2014	Outstanding awarded shares as at 30 June 2014
22 April 2014	1,265,644	50,658,000	23 December 2014	-	(20,391)	1,245,253

As certain of the vesting conditions of the granted shares were not satisfied, nil share award expense was recognised during the period (six months ended 30 June 2013: nil).

At the date of approval of these financial statements, no share of the Company is issued and held by the trustee of the 2013 Share Award Scheme for relevant grantees.

## 34. BUSINESS COMBINATION

On 30 December 2013, the Group acquired 100% interests in Changsha Yingke Nutrition Products Company Limited from a third party, which was renamed as Adimil (Changsha) Nutrition Products Limited ("Changsha Adimil"). Changsha Adimil is engaged in the manufacture of infant formula products. The acquisition was made as part of the Group's strategy to manufacture certain of the Group's infant formula products in China. The purchase consideration for the acquisition was RMB350,000,000 in the form of cash.

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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 34. BUSINESS COMBINATION (CONTINUED)

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

	Notes	Preliminary fair value recognised on acquisition RMB'000	Final fair value recognised on acquisition RMB'000 (Restated)
Property, plant and equipment		140,948	145,113
Prepaid land lease payments	13	66,052	46,052
Intangible assets	15	–	103,780
Deferred tax liability	29	–	(20,945)
Total identifiable net assets at fair value		207,000	274,000
Goodwill on acquisition	14	143,000	76,000
Satisfied by cash		350,000	350,000

The quantitative impact on the financial statements is summarised below:

Impact on the consolidated statement of financial position:

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

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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 35. OPERATING LEASE ARRANGEMENTS

### As lessee

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

As at 30 June 2014 and 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Within one year	<b>48,819</b>	49,771
In the second to fifth years, inclusive	<b>31,256</b>	43,143
After five years	<b>4,635</b>	5,227
	<b>84,710</b>	98,141

## 36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of the reporting period:

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	<b>78,516</b>	112,089
Intangible assets	<b>902</b>	333
	<b>79,418</b>	112,422

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 37. RELATED PARTY BALANCES AND TRANSACTIONS

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

### (a) Related party transactions

	Note	Six months ended 30 June 2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Purchases from a company under common control of certain directors	(i)	3,194	4,476

Note:

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

### (b) Outstanding balances with related party

At the end of the period, no balance arising from the above related party transactions (2013: RMB1,061,000).

### (c) Compensation of key management personnel of the Group

	Six months ended 30 June 2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Fees	890	575
Short-term employees benefits	31,109	37,756
Pension scheme contributions	520	436
Equity-settled share option expense	681	1,163
Equity-settled share award scheme expense	1,307	3,889
Total compensation paid to key management personnel	34,507	43,819

## 38. COMPARATIVE AMOUNTS

As further explained in note 34, the purchase price allocation for the business combination has been completed in the six months ended 30 June 2014, certain comparative amounts have been restated to conform with the current period's presentation and accounting treatment. The statement of financial position as at 1 January 2013 was not presented as the retrospective restatement has no effect on the information in the statement of financial position at the beginning of the preceding period.

## 39. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 19 August 2014.



**BIOSTIME 合生元**

**Biostime International Holdings Limited**

**合生元國際控股有限公司**