BIOSTIME

牵手妈妈·只为宝宝

HAND IN HAND FOR MUM & BABY

Biostime International Holdings Limited

合生元國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

（於開曼群島註冊成立之有限公司）

(Stock Code 股份代號：1112)

Annual Report 2014

二零一四年年報

We devote ourselves
to providing parents with
comprehensive parenting solutions

Content

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HAND IN HAND FOR MUM & BABY

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

PRINCIPAL BANKER

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

CORPORATE INFORMATION

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

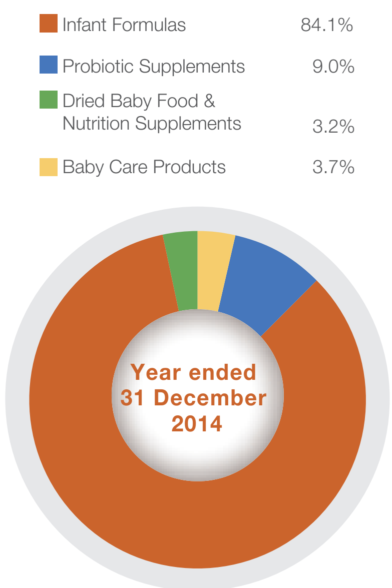
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

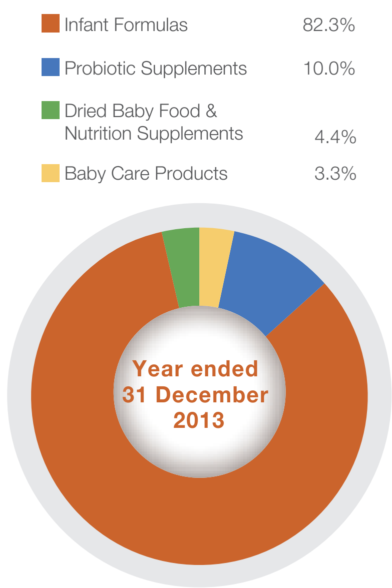
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

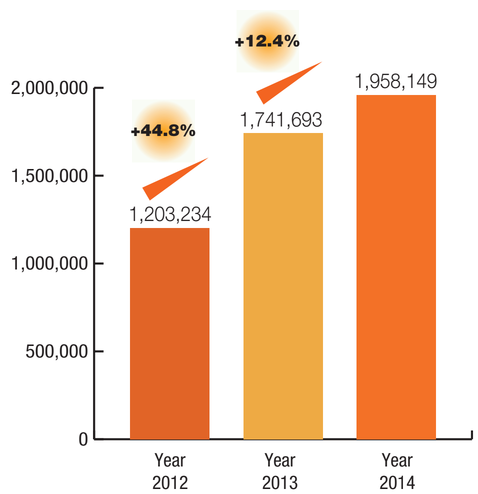
	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Revenue	**4,731,563**	4,561,299
Gross profit	**2,926,931**	2,975,120
Profit for the year	**806,786**	820,715
Net cashflows from operating activities	**972,172**	660,473
Earnings per share		
– Basic	**RMB1.34**	RMB1.37
– Diluted	**RMB1.31**	RMB1.34

REVENUE BY PRODUCT SEGMENT





NO. OF AVERAGE ACTIVE MAMA100 MEMBERS



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Biostime International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am glad to present our Annual Report for the year ended 31 December 2014, which corresponds with the fifth year since our Initial Public Offering on 17 December 2010 on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

BUSINESS REVIEW

In the year of 2014, China maintained steady albeit slowing economic growth, and pressed ahead with its economic restructuring, which cast uncertainty over the country's consumer industries, including the baby product sector. To cope with such challenges in a rapidly evolving business environment, the Group, as a premium provider of high-end pediatric nutritional and baby care products, increased investment to support long-term business growth through a business unit restructuring in the first half of 2014. Therefore, the Group was able to go through this competitive environment and manage to deliver 3.7% sales growth and maintain solid financial performance with net profit margin of 17.1% for the year ended 31 December 2014, while revenue and net profit of the Group reached RMB4,731.6 million and RMB806.8 million, respectively.

To ensure dedicated efforts in growing the Group's four brands and to share support from Mama100 platform and other background departments, the Group conducted an internal organization restructuring to set up independent business units. The restructuring was completed on 30 June 2014, and began to bring benefits to the operation of the Group in the second half of the year. Productivity and efficiency have been improved, and cost savings were achieved through cross-brand cooperation and synergy generated by leveraging the extensive customer database. The Group is confident that the new structure will provide a solid foundation to sustain business growth and maintain sound financial control, despite the intensive competition in China's baby product industry.

In the past two years, the e-commerce proliferated rapidly and played an increasingly important role in consumers' daily life. These years saw a fast shift from offline purchasing to online purchasing, leading to significant changes to offline sales channels and reshaping the competitive landscape. Acknowledging 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 year 2014, O2O business contributed to 10.1% of the Group's total accumulated membership points. As at the end of 2014, the combined number of Mama100 mobile APP registered users and Mama100 WeChat followers reached approximately 1.9 million, and the average number of daily active users of the Mama100 mobile APP during the fourth quarter of 2014 reached around 85,000. As at the end of 2014, there were over 20,000 membership stores participating in the Group's O2O platform and the Group has selected 4,000 stores out of them to build O2O flagship stores in order to standardize service procedures and increase service efficiency.

BUSINESS REVIEW (Continued)

In addition to the existing O2O business model, the Group also adopted the Business-to-Customer ("B2C") business model in August 2014. By the end of the year, the Group had already cooperated with the majority of the leading e-commerce platforms in China, including JD.COM, TMALL.COM, Yihaodian, Amazon.cn, Suning.com and Dangdang.com, etc. At the same time, the Group selected certain series of infant formulas products as key units on the B2C platforms in order to increase visibility, attract new members and boost sales. The Group has recorded a fast growth in its B2C business and received consumers' positive feedback in its B2C layout period. The Group believes that its O2O, B2C and offline businesses will complement each other, and its multi-platform strategy will help capture new opportunities in the fast changing industry environment.

During the year 2014, the Group consistently invested in its core competencies and thus recorded a growth of 11.4% in the sales volume and 6.1% in the sales revenue in its infant formula business despite the intensified competition in China's infant formula market. As a newly launched infant formula brand, Adimil maintained strong momentum in the year, and accounted for 17.9% of the Group's sales of infant formulas. In the fourth quarter of 2014, the Group successfully launched a new Adimil series which were manufactured by the Group's Changsha Adimil plant using raw milk sources imported from Europe and target high-end markets in the fourth- and fifth-tier cities in China. According to Nielsen, an independent third party market research firm, the Group gained market share in both the offline and online infant formula markets in China in the year 2014. And in offline market, the Group maintained its position as the third largest player.

BMcare, the baby care brand of the Group, contributed to 3.7% of the Group's total sales in 2014. In December 2014, the Group launched nationwide a new series of diapers which were manufactured by the Group's joint venture factory Hangzhou Coamie Personal Care Products Co., Ltd. (杭州可艾個人護理用品有限公司)[1]. The preliminary feedback from retail stores and Mama100 members on this diaper was very positive, which makes the Group believe that this new product will become a growth and diversification driver.

[1] Hangzhou Coamie Personal Care Products Co., Ltd. (杭州可艾個人護理用品有限公司) was established in March 2014 in Hangzhou, in accordance with the joint venture agreement entered into by the Group and Hangzhou Coco Healthcare Co., Ltd (杭州可靠護理用品股份有限公司) on 10 January 2014.

BUSINESS REVIEW (Continued)

The development of new media has been changing the way consumers obtain information and the way companies advertise their brands and products. In 2014, the Group stepped up advertising and increased the brand building expense by 14.4% from last year. While continuing advertisement in traditional media, the Group has also invested increasingly in marketing with new media such as internet TV platforms, search engines, social media network platforms and online vertical parenting forums. Spending on emerging media in 2014 was more than triple of that in 2013. The Group is adapting its marketing strategy to meet the changes of media environment and will continue to invest in brand building to increase brand recognition and enhance brand equity.

The Mama100 membership continues to play a critical role in the Group's business. The average number of Mama100 active members of 2014 increased by 12.4% to 1,958,149, while the number of member retail outlets as of the end of 2014 increased by 64.7% to 34,098, as compared with 2013. The sales generated by Mama100 active members contributed to about 76.8% of the Group's total revenue. In 2014, the Group organized over 25,000 face-to-face parenting courses as membership service to increase member loyalty and recruit new members.

According to Nielsen, the weighted average offline distribution rate of the Group is about 60%. Viewing this as a growth opportunity, the Group accelerated its store expansion, especially in the sales and distribution channels in lower-tier cities. By the end of the year 2014, the Group recorded rapid increases in the number of VIP baby specialty stores to 24,615, Mama100 Member's Zones in pharmacies to 2,824, and retail sales organizations to 6,659 or by 76.4%, 152.8% and 27.2% as compared with 2013, respectively. At the same time, the Group has continued to track the inventory and sales of its products at the distributors' level through an advanced real-time distribution management system. This has enabled the Group to maintain healthy operating cash flow and avoid channel conflict and stuffing. In 2014, the average inventory turnover days of the Group and the Group's distributors were about 176 days and 31 days respectively.

BUSINESS REVIEW (Continued)

In 2014, the Group continued to increase investment in research and development ("R&D"). At the end of the year, the Group's Guangzhou R&D and Quality Analysis Centre was completed after two years of construction and started operation. With this new center, the Group will be able to strengthen its R&D and quality management capabilities for the long run. In September 2014, the Group formally launched Biostime Institute of Nutrition and Care ("BINC") at the occasion of the 19th session of the National Pediatric Academic Meeting. BINC is a research organization dedicated to providing mothers and children with science-based health solution in nutrition, care and psychology. It aims at serving as an important international platform for expert communication, academic exchange and resource sharing among medical and scientific professionals in China and abroad. The Group believes that the establishment of BINC will enable the Group to enhance its R&D capabilities and make great contribution to the development of innovative products. Moreover, in September 2014, the Group signed a technology transfer agreement with Mérieux NutriSciences, the world's leading provider of analytical testing and research services to pediatric nutrition and infant formula companies, to develop a high performance metagenomics platform for conducting microbiota research for the Chinese market. This cooperation will allow the Group to acquire cutting-edge knowledge in pediatric nutrition and health and to apply the research findings to potential product upgrade and innovation.

The Group is committed to high standard quality management and has worked closely with its suppliers to seek continuous improvement and deeper cooperation in this field. In May 2014, the Group's Changsha Adimil plant successfully renewed its National Industrial Products Production Permit for the production of infant formula products, demonstrating its full conformity with the more stringent industry manufacturing standards. The Group will continue to secure stable supply of high quality base milk powder from France by Isigny Sainte Mère ("ISM") and cooperate with ISM's technical experts to ensure advanced production and quality assurance process in the Adimil plant. As to the Group's imported infant formula products, the Group's three infant formula suppliers in Europe were successfully accredited by the Certification and Accreditation Administration of China ("CNCA") and registered with the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China ("AQSIQ") under the new regulations governing foreign infant formula producers.

The Group consistently invested in its organization by offering competitive compensation, various training and educational opportunities. As at 31 December 2014, the Group had over 3,200 employees in Mainland China, Hong Kong, France and Ireland. In October 2014, the Group granted 2,103,316 shares to selected employees by way of allotment of new shares under the 2013 Share Award Scheme adopted in November 2013. For the year of 2014, the Group was named as the "2014 Best Employer" by Guangzhou Daily and "China Best Employer" by zhaopin.com.

PROSPECTS

It is anticipated that in 2015, China's economy will face several uncertainties and the competition in the baby product industry will continue to be fierce. Nevertheless, the adjustment to the one-child policy will encourage the growth in the number of births in the coming few years, thus creating a greater business opportunity for the baby product industry. The Group has taken a series of action steps in order to capitalize future opportunities.

Brand Building

The Group will adhere to its multi-brand strategy in face of the development of mobile internet and the diversification of Chinese consumers' needs. The Group will consolidate the brand equity of Biostime as a high-end brand providing all-round nutrition to support the development of physical, intelligent and emotional qualities of babies. Meanwhile, it will enhance the recognition of Adimil as focusing on nutrition enhancement and functionality to fulfill different customers' needs. The Group will also continue to invest in BMcare which is positioned as a premium baby care brand.

Enhancing brand equity through multi-channel marketing platform is one of the important growth drivers of the Group's business. Nowadays, young parents seek for a more convenient and customized way to obtain qualitative parenting information on a timely manner. And information or recommendations from people and the community around play an instrumental role in parents' decision on selecting baby products. Therefore, the Group will increasingly advertise on emerging media, such as new vertical online parenting forums and mobile apps, and will also design special parenting events catering for young parents' needs and focus on word-of-mouth marketing, while maintaining a certain exposure in traditional media such as CCTV, provincial TV stations and parenting magazines.

Sales Channel Expansion

In order to seize the business opportunities in lower tier cities and further extend the O2O network, the Group will accelerate its channel expansion and increase product penetration. By the end of 2015, the Group aims to increase the number of its VIP baby specialty stores to 30,000, VIP pharmacies to 6,000, while maintaining the number of supermarkets at the same level as at the end of 2014. As pharmacy is emerging rapidly among the offline channels in the sales of baby products, the Group expects to generate 10% of its total sales from pharmacies within two to three years.

PROSPECTS (Continued)

Online Strategy

After around one and a half years of operation, the Mama100 O2O platform has succeeded in providing convenience to Mama100 members, enhancing customer loyalty and eventually contributing to the sales of the Group's products. Meanwhile, the Group was well aware of the customers' demand for more choices of products as well as the platform's strength in fulfilling this demand. Thus, the Group decided to open the platform for sales and marketing of third parties' branded products, with the aim of developing it into a more comprehensive e-commerce platform. To further support this initiative, the Group will seek investors (including external professional institutional investors and certain key employees of the Group) into its subsidiary, Mama100 International Holdings Limited. In the long term, the Group is looking forward to building the leading vertical O2O e-commerce platform in China which focuses on products and services for pregnant mothers and babies. At the same time, the Group has already assigned an independent and professional team to handle its B2C e-commerce development. In the coming year, the Group believes that it will record a significant development of its B2C business. Lastly, the Group is gradually implementing its Customer-to-Customer ("C2C") online member store authorization system, which enables the Group's offline member stores and other well-established retail online stores to sell the Group's products on C2C platforms. The Group will continue its diversified online platforms strategy and targets to derive 30% of its total sales from online sales within two years.

Category Expansion

As a premium provider of high-end pediatric nutritional and baby care products, the Group is committed to fulfilling its members' ever-growing needs for high quality baby products and parenting services by leveraging the Group's membership, marketing and distribution platform. In the coming year, the Group will continue to invest in its in-house R&D capabilities to develop new initiatives based on existing categories. On the other hand, the Group is looking for companies with high quality baby products, well-known brands and solid R&D capabilities as acquisition targets which will help further expand the Group's product category.

CHALLENGES AND OPPORTUNITIES

The intensified competition and changes in distribution channels in China's baby product industry has made the business environment increasingly challenging. However, the Group has adopted its new marketing strategies and organizational structure to capture the opportunities alongside. With its market know-how and innovation in business model, the Group is confident of outperforming the market.

As the majority of the Group's products and raw materials are imported from Europe, the Group is exposed to the fluctuation of Euro to RMB exchange rate. The Group will strengthen its supply chain management and increase operation efficiency in order to cope with such fluctuation and maintain profitability.

DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board of Directors is pleased to recommend the payment of a final dividend of HK$0.41 per ordinary share for the year ended 31 December 2014. Taking into account the interim dividend of HK$0.26 per ordinary share in respect of the six months ended 30 June 2014 paid in September 2014, the annual dividend will amount to HK$0.67 per ordinary share, accounting for approximately 40.0% of profit for the year ended 31 December 2014.

SOCIAL RESPONSIBILITY

The Group established the "Biostime China Foundation for Mother and Child" (the "Foundation") in cooperation with the Chinese Red Cross Foundation in 2007 and has donated RMB0.1 to the Foundation for every product unit sold. Since its inception, the Foundation has raised a total of approximately RMB15.0 million and assisted over 510 children and mothers suffering from serious illnesses by the end of 2014. In 2013, the Foundation donated RMB1.0 million to support the relief and reconstructing of Ya'an in Sichuan Province after an earthquake, and the monetary donation has now been used to construct the Luo Ba Primary School. The Foundation is also cooperating with qualified maternal and child care hospitals and general hospitals in the country to carry out the project of "Biostime Hospitals for Maternal and Infant Health Care (合生元母嬰救助愛心醫院)" and 30 hospitals of this kind are expected to be built in three years with donation of RMB15.0 million from the Foundation. In recognition of the Group's contribution to society, the Group was awarded "The Best Social Responsibility Brand 2014" at the 4th China Charity Festival.

ACKNOWLEDGEMENTS

The year of 2014 was a challenging and transitional year, but the Group was able to continue with steady progress thanks to the strong support from its dedicated employees, shareholders, Mama100 members, retailers, distributors and suppliers. I would like to take this opportunity to express my sincere gratitude to all of them and I look forward to their continuous support and cooperation in creating a brighter future.

Luo Fei
Chairman

Hong Kong, 24 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF 2014 RESULTS

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Revenue	**4,731,563**	4,561,299
Gross profit	**2,926,931**	2,975,120
Selling and distribution costs	**1,587,764**	1,513,046
Administrative expenses	**175,268**	177,313
Profit for the year	**806,786**	820,715

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Net cash flows from operating activities	**972,172**	660,473
Net cash flows used in investing activities	**(460,394)**	(80,749)
Net cash flows from/(used in) financing activities	**1,171,847**	(214,674)
Cash and cash equivalents and time deposits at end of year	**4,493,340**	2,517,710

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2014, revenue of the Group increased by 3.7% to RMB4,731.6 million as compared with 2013. The increase in revenue was mainly attributable to the growth of Adimil, the Group's new brand of infant formulas launched in late 2013. The following table sets forth the Group's revenue by product segment for the years indicated:

	Year ended 31 December			
	2014	**% of**	2013	% of
	RMB'000	**Revenue**	*RMB'000*	Revenue
Infant formulas	**3,981,575**	**84.1%**	3,752,116	82.3%
Probiotic supplements	**425,094**	**9.0%**	458,164	10.0%
Dried baby food and nutrition supplements	**151,420**	**3.2%**	198,778	4.4%
Baby care products	**173,474**	**3.7%**	152,241	3.3%
Total	**4,731,563**	**100.0%**	4,561,299	100.0%

RESULTS OF OPERATION (Continued)

Revenue (Continued)

Infant formulas

During the year 2014, the Group has consistently invested in its core competencies and thus recorded a growth in revenue of infant formulas by 6.1% to RMB3,981.6 million as compared with last year. The revenue growth was mainly driven by the increased sales volume of infant formulas under the brand Adimil, which showed strong momentum during the year, accounting for 17.9% of the Group's total revenue of infant formulas. In 2014, sales volume and revenue of high-tier infant formulas increased by 14.2% and 10.5%, respectively, resulting in a further increase of sales proportion within the product segment by 2.5 percentage points to 63.0% from 60.5% in 2013. Revenue from supreme-tier infant formulas remained stable in 2014, accounting for 37.0% of the total revenue of infant formulas.

Probiotic supplements

Accounted for 9.0% of the Group's total revenue in 2014, revenue of probiotic supplements decreased by 7.2% from RMB458.2 million in 2013 to RMB425.1 million in 2014. Revenue of probiotic supplements resumed in the second half of 2014, with the completion of business unit restructuring, recording an increase of 3.9% as compared with last year. While owing to an insufficiency of dedicated efforts of the Group's sales force, revenue of probiotic supplements had a double-digit decrease rate in the first half of 2014 as compared with the corresponding period of last year.

Dried baby food & nutrition supplements

Revenue of dried baby food and nutrition supplements only accounted 3.2% of the Group's total revenue in 2014, and declined by 23.8% to RMB151.4 million during 2014 compared with 2013. The decrease was mainly due to the suspension 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 13.9% to RMB173.5 million in 2014 from RMB152.2 million in 2013. The growth in revenue of this segment was mainly attributable to the newly launched baby diapers in December 2014, which received very positive feedback from retail stores and Mama100 members.

Gross profit and gross profit margin

In 2014, the Group recorded gross profit in the amount of RMB2,926.9 million, which slightly decreased by 1.6% compared with last year. Gross profit margin decreased from 65.2% in 2013 to 61.9% in 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 more marketing campaigns; and (iii) 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 last year.

RESULTS OF OPERATION (Continued)

Other income and gains

Other income and gains in 2014 amounted to RMB128.1 million, representing an increase of 20.4% comparing with last year. Other income and gains primarily consisted of interest income of RMB113.1 million, government subsidies of RMB10.6 million and others.

Selling and distribution costs

The Group continued to invest in its brand building and organize innovated customer communication events to win brand recognition in 2014. Thus, selling and distribution costs as a percentage of revenue slightly increased by 0.4 percentage points from 33.2% in 2013 to 33.6% in 2014, which was still within the management's expectation. Selling and distribution costs increased by 4.9% from RMB1,513.0 million in 2013 to RMB1,587.8 million in 2014. The increase was primarily due to (i) the increased investments in the advertising and brand building costs in new media; and (ii) the increased promotional expenses in relation to the consumer communication and store expansion.

Administrative expenses

Administrative expenses decreased by 1.1% from RMB177.3 million in 2013 to RMB175.3 million in 2014. Thanks to the enhancement on the efficiency of the Group, administrative expense as to revenue slightly decreased to 3.7% in 2014 from 3.9% in 2013.

Other expenses

For the year ended 31 December 2014, other expenses amounted to RMB87.5 million, primarily consisting of R&D expenses of RMB49.7 million, net exchange loss for the year of RMB8.2 million and others.

Finance costs

In 2014, the Group incurred finance costs of RMB86.7 million, including bank loan interests of RMB8.7 million and non-cash interest expense of Convertible Bonds (as defined below) of RMB78.0 million.

Income tax expenses

Income tax expenses decreased by 8.7% from RMB341.3 million in 2013 to RMB311.6 million in 2014. The effective tax rate declined from 29.4% in 2013 to 27.9% in 2014. The decrease in the effective tax rate was mainly due to the non-continuing one-off expense of a fine amounting to RMB162.9 million incurred in 2013, which is subject to income tax under the PRC tax rules.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2014, the Group had net cash generated from operating activities of RMB972.2 million, consisting of cash generated from operations of RMB1,310.6 million, partially offset by income tax paid of RMB338.4 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB1,159.6 million before working capital adjustments and net positive changes in working capital of RMB151.0 million. Resulting from the Group's effort in maintaining its inventory turnover days at a healthy level, it freed up cash from operating activities.

Investing activities

For the year ended 31 December 2014, net cash flows used in investing activities amounted to RMB460.4 million. The Group's net cash outflows for investing activities mainly consisted of (i) outflow for construction in progress, purchase of property, plant and equipment and intangible assets of RMB148.4 million, (ii) payment for the investment in an associate of RMB40.0 million and a loan to the associate of RMB40.0 million, (iii) subscription of bonds of an overseas supplier of RMB48.8 million; and (iv) a net increase in time deposit of RMB293.3 million. The above outflows were partially offset by the interest received and repayment of long-term loan receivable of RMB77.5 million and RMB31.1 million, respectively.

Financing activities

For the year ended 31 December 2014, net cash generated in financing activities amounted to RMB1,171.8 million. It primarily reflected net proceeds from issuing Convertible Bonds (as defined below) of RMB2,414.4 million, partially offset by distribution of the dividends to the shareholders of the Company of RMB492.7 million and repayment of bank loans of RMB750.6 million.

Cash and bank balances

As of 31 December 2014, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB3,347.2 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB1,146.2 million, the Group's cash and bank balances amounted to RMB4,493.3 million as of 31 December 2014.

Convertible bonds and interest-bearing bank loans

On 20 February 2014, the Company issued zero coupon convertible bonds (the "Convertible Bonds") due 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. No Convertible Bonds were converted into shares of the Company during 2014 and the carrying amount of the Convertible Bonds as at 31 December 2014 remained at RMB2,410.5 million. During the year, the Group had repaid all the bank loans thus no interest-bearing bank loans were outstanding as of 31 December 2014. The gearing ratio was 36.4% calculated by dividing the Convertible Bonds by total assets.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Inventories

	As of 31 December	
	2014	2013
	RMB'000	*RMB'000*
Raw materials	**535,693**	445,516
Raw materials in transit	**156,031**	375,522
Work in progress	**2,491**	2,881
Finished goods	**102,812**	147,974
Total	**797,027**	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[1] under AQSIQ[2].

Working capital cycle

The Group's cash cycle increased from 100 days in 2013 to 112 days in 2014.

The average turnover days of trade and bills receivables maintained at 1 day for the years ended 31 December 2014 and 2013.

The inventory turnover days increased to 176 days in 2014 from 170 days in 2013. The Group endeavored to maintain its inventory at a healthy level to avoid excess inventory and deep discounting. Through adjusting purchase orders to reflect sales as well as launching series of innovative marketing activities, the Group's inventory turnover days resumed to normal in the second half of 2014. According to the Group's sophisticated real-time distribution management system, the average inventory turnover days at the distributor's level slightly increased by 2 days from 29 days in 2013 to 31 days in 2014.

The average turnover days of trade payables decreased from 71 days in 2013 to 65 days in 2014, which was mainly due to the increased purchases from suppliers with shorter credit terms.

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

(2) General Administration of Quality Supervision, Inspection and Quarantine of the 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.

USE OF PROCEEDS

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

The use of the net proceeds from the global offering up to 31 December 2014 was as follows:

	Available to utilize	Utilized as at 31 December 2014	Unutilized as at 31 December 2014
	HK$ million	*HK$ million*	*HK$ million*
Enhancing and reinforcing the brand recognition and brand image	558.5	558.5	–
Expanding business by cooperating with upstream suppliers	319.1	319.1	–
Expanding and developing the sales distribution network and retail channels	239.3	239.3	–
Investing in research and development and expanding production infrastructure and warehouses	239.3	239.3	–
Upgrading the information technology system	79.8	47.5	32.3
Working capital and other general corporate purposes	159.6	159.6	–
	1,595.6	1,563.3	32.3

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

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

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Throughout the year ended 31 December 2014, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision A.2.1, details of which are explained below.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 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 year ended 31 December 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.

THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company. All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

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

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

Board Composition

The Board currently comprises nine members, consisting of two executive Directors, four non-executive Directors and three independent non-executive Directors. The Board has also established three Board committees, namely, the nomination committee (the "Nomination Committee"), the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee"). Directors' biographical details are set out in the section headed "Biography of Directors and Senior Management" on pages 41 to 53 of this Annual Report. Below is the list of Directors:

Executive Directors:

Mr. Luo Fei *(Chairman, Chief Executive Officer, Chairman of the Nomination Committee and Member of the Remuneration Committee)*
Ms. Kong Qingjuan *(Chief Operating Officer)*

Non-executive Directors:

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

THE BOARD (Continued)

Board Composition (Continued)

Independent non-executive Directors:

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

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

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

Delegation by the Board

During the year ended 31 December 2014, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

THE BOARD (Continued)

Delegation by the Board (Continued)

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

The Board has delegated to the three Board committees the responsibility for overseeing particular aspects of the Company's affairs. All Board committees are established with defined written terms of reference which have been posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 6 of the Annual Report. The Board committees should report to the Board on their decisions or recommendations made.

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

Chairman and Chief Executive Officer

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

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

Joint Company Secretaries

The joint company secretaries of the Company are Ms. Wong Tak Yee of Tricor Services Limited, an external service provider, and Ms. Yang Wenyun who is also the primary contact person of the Company. Details of the biographies of the joint company secretaries are set out in the section headed "Biography of Directors and Senior Management" on pages 41 to 53 of the Annual Report.

Each of the joint company secretaries has undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the year ended 31 December 2014.

THE BOARD (Continued)

Board Practices of Meetings

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

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

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

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 7 days before each Board meeting or Board committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

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

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

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

The Board has four scheduled meetings a year at quarterly interval and additional meetings will be held as and when required. The four scheduled Board meetings for a year are planned in advance.

During the year ended 31 December 2014, the Board held 13 meetings. During the meetings of the Board held in 2014, the Board reviewed the operation and financial performance and reviewed and approved the annual results for the year ended 31 December 2013 and the interim results for the six months ended 30 June 2014.

THE BOARD (Continued)

Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2014

Name of Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meeting	Remuneration Committee Meetings	Annual General Meeting
Executive Directors					
Mr. Luo Fei *(Note 1)*	13/13	N/A	1/1	3/3	1/1
Ms. Kong Qingjuan	13/13	N/A	N/A	N/A	1/1
Non-executive Directors					
Dr. Zhang Wenhui	13/13	N/A	N/A	N/A	1/1
Mr. Wu Xiong	13/13	N/A	N/A	N/A	1/1
Mr. Luo Yun	13/13	2/2	N/A	N/A	1/1
Mr. Chen Fufang	12/13	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Dr. Ngai Wai Fung *(Note 2)*	13/13	2/2	1/1	3/3	1/1
Mr. Tan Wee Seng *(Note 3)*	13/13	2/2	1/1	3/3	1/1
Professor Xiao Baichun	13/13	N/A	N/A	N/A	1/1
Date of Meeting *(DD/MM/YYYY)*	09/01/2014 14/01/2014 25/03/2014 22/04/2014 26/06/2014 14/07/2014 05/08/2014 19/08/2014 04/09/2014 16/09/2014 09/10/2014 06/11/2014 31/12/2014	24/03/2014 18/08/2014	25/03/2014	18/04/2014 24/06/2014 09/10/2014	08/05/2014

Notes:

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

THE BOARD (Continued)

Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2014 (Continued)

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

Besides the Annual General Meeting ("AGM") held on 8 May 2014, no other general meeting was held during the year ended 31 December 2014.

In addition to the above-mentioned Board meetings, the Chairman of the Board held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year ended 31 December 2014.

Independence of Independent Non-executive Directors

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

In order to better encourage the independent non-executive Directors to exert their professional knowledge and expertise for the Company, each of them was granted share options by the Company on 16 December 2011 under the Share Option Scheme adopted by the Company. Details of such grant of share options are set out on page 61 of this Annual Report.

Term of Appointment of Non-executive Directors

Each of the non-executive Directors (including independent non-executive Directors) of the Company has entered into a letter of appointment with the Company for a specific term of three years, automatically renewable upon expiration, and is subject to retirement by rotation at an AGM at least once every three years and being eligible, offer himself for re-election pursuant to the Company's Articles of Association.

Appointment, Re-election and Removal of Directors

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

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

Each of the Directors of the Company has entered into a service contract or a letter of appointment with the Company for a specific term. Such term is subject to his/her re-election at an AGM upon retirement pursuant to relevant articles of the Articles of Association.

THE BOARD (Continued)

Appointment, Re-election and Removal of Directors (Continued)

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

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

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group.

The remuneration of each of members of the senior management of the Group by band for the year ended 31 December 2014 is set out below:

Remuneration bands	Number of persons
HK$500,001 to HK$1,000,000	3
HK$2,000,001 to HK$3,000,000	4
HK$3,000,001 to HK$4,000,000	1
HK$4,000,001 to HK$5,000,000	6
HK$5,000,001 to HK$6,000,000	2
HK$6,000,001 to HK$7,000,000	1
HK$7,000,001 to HK$8,000,000	1

Further particulars regarding Directors' and chief executive's remuneration and five highest paid employees as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in note 9 to the financial statements.

THE BOARD (Continued)

Continuous Professional Development

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

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

During the year ended 31 December 2014, the Directors participated in the following trainings:

	Types of Training
Executive Directors	
Mr. Luo Fei	B
Ms. Kong Qingjuan	B
Non-executive Directors	
Dr. Zhang Wenhui	B
Mr. Wu Xiong	B
Mr. Luo Yun	B
Mr. Chen Fufang	B
Independent non-executive Directors	
Dr. Ngai Wai Fung	A, B
Mr. Tan Wee Seng	A, B
Professor Xiao Baichun	B

A: attending seminars and/or conferences and/or forums relating to directors' duties or other relevant topics.
B: reading newspaper, journals and updates relating to the economy, general business or directors' duties etc.

THE BOARD (Continued)

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 20 March 2012 in compliance with code provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and relevant disclosure in the Corporate Governance Report of the Annual Report of the Company.

During the year ended 31 December 2014, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company Code, Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and relevant disclosure in this Corporate Governance Report of the Annual Report of the Company.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2014. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2014 are set out in the Directors' Report on page 84 of the Annual Report.

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

Liability Insurance for Directors

The Company has subscribed appropriate and sufficient insurance coverage on Directors' liabilities in respect of legal actions taken against Directors arising out of corporate activities since August 2011, which is reviewed and renewed on an annual basis. The insurance coverage was lately renewed on 18 August 2014.

NOMINATION COMMITTEE

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

The principal duties of the Nomination Committee 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.

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

The Nomination Committee held a meeting during the year ended 31 December 2014 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and make recommendations to the Board on the re-election of Directors and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2014" above. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang, all the non-executive Directors, shall retire from office by rotation and being eligible, offer themselves for re-election at the forthcoming AGM to be held on 15 May 2015.

The Company's circular dated 2 April 2015 contains detailed information of the Directors standing for re-election.

AUDIT COMMITTEE

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

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

The main duties of the Audit Committee include the following:

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

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

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

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2014 and the annual results for the year ended 31 December 2014, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 and the Annual Report for the year ended 31 December 2014, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

The Audit Committee held two meetings during the year ended 31 December 2014 and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2014" above.

The Audit Committee also met the external auditors twice without the presence of the executive Directors in the year of 2014.

AUDIT COMMITTEE (Continued)

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements of the Company is set out in the Independent Auditors' Report on pages 85 to 86 of the Annual Report.

Non-audit services by the external auditors are subject to the Audit Committee's approval and may be engaged only if they are more effective or economical than those available from other service providers and will not constitute adverse impact on the independence of the external auditors. In 2014, the external auditors provided non-audit services mainly in tax compliance and advisory.

The Audit Committee has reviewed the independence and objectivity of the external auditors in 2014 and has been satisfied with the findings. The Audit Committee has recommended to the Board the re-appointment of Ernst & Young as the Company's external auditors at the forthcoming AGM.

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

Type of Services	**RMB'000**
Annual audit services	2,900
Non-audit services	
– Tax compliance and advisory services	146
Total	3,046

REMUNERATION COMMITTEE

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

The primary objectives of the Remuneration Committee include making recommendations on the Company's remuneration policy and structure for all 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 procedure 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.

REMUNERATION COMMITTEE (Continued)

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

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

During the year under review, the Remuneration Committee made recommendations to the Board to grant and award the shares of the Company to eligible persons pursuant to the Share Award Scheme adopted by the Board on 28 November 2011 and amended by the Board on 30 March 2012 and the 2013 Share Award Scheme adopted by the Board on 29 November 2013, in order to recognise the contributions by certain employees, 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 Remuneration Committee held three meetings during the year ended 31 December 2014 and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2014" above.

INTERNAL CONTROL AND RISK MANAGEMENT

The Company has designed and implemented an internal control system based on its organizational architecture and operational model. The internal control framework and its related management system apply to all business and financial processes of the Group and its subsidiaries and business units. The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, and to identify and manage potential risks.

The Company has established a dedicated Enterprise Risk Management process to regularly perform risk assessments on all business processes across the Company. This process identifies, manages, and monitors the significant risks to which the Company is exposed, forecasts potential risks to the Company caused by changes in both the internal and external environments, and submits risk management strategies along with mitigating measures to corporate management for decision making. All process owners are responsible for identifying, assessing, and managing different types of risks and related internal control measures. Risk assessment factors include the likelihood of a risk occurring and its potential impact.

The Group has also established a comprehensive complaint channel, an investigation mechanism, and an accountability system. The Group has clearly defined guidelines in the Agreement on Honesty and Integrity which the Group signs with its suppliers and dealers. Suppliers and dealers can denounce any improper conduct concerning the Company's employees through the channels provided in the agreement. This helps the Company monitor the integrity of its employees.

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

During the year under review, the Board, through the Audit Committee, conducted a review of effectiveness of the internal control system of the Group, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The Internal Audit Department is responsible for assessing the Group's internal control system, formulating an impartial opinion on the system, and reporting its findings to the Audit Committee and senior management, as well as following up on all reports to ensure that all issues have been satisfactorily resolved.

The Company's business operation highly relies on information technology ("IT"). The Internal Audit Department of the Group has started to embrace IT as a key part of its group-wide activities since 2013. IT risks such as privacy, security and project failure are being viewed increasingly in the context of broader business risks in the Company. IT audit provides assurance to management, in terms of initiating tests to IT controls, assessing the current state, planning IT governance solutions, monitoring IT governance initiatives and helping make IT governance business as usual. The Internal Audit Department of the Group has implemented an information security management system since January 2013 which covers a wide range of the Group's products, services and operations. The Group has received the Information Security Management System Dual Certification accredited by China National Accreditation Service (CNAS) and United Kingdom Accreditation Service (UKAS), demonstrating the conformity with information security management standards recognized domestically and internationally. The information security management system covers the products and services of the Company, as well as the development, operation, support and maintenance of Mama100 platform, Mama100 call center, supply chain management, sales and membership information management and Enterprise Resource Planning (ERP). The Certification marks a milestone of the Company's ability to continuously provide better foundation of storing, processing and analyzing the data in a secure manner, which is critical to the Group's operation excellence and decision making.

In addition, a regular dialogue is maintained between the Internal Audit Department of the Group and the external auditors of the Group so that both are aware of significant factors which may affect their respective scope of work. Depending on the nature of business and risk exposure of individual business units, the scope of work of the internal audit includes financial and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency reviews.

The Board believes that the existing internal control system is adequate and effective.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. At the AGMs, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (Continued)

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

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

During the year ended 31 December 2014, the Company participated at 25 investors' conferences and roadshows and more than 700 individual meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the year are summarized as follows:

Date	Event	Organizer	Location
January 2014	Fubon Taipei Roadshow	Fubon Securities	Taipei
March 2014	Hong Kong Roadshow	HSBC, Jefferies	Hong Kong
April 2014	Standard Chartered Roadshow	Standard Chartered	London, Edinburgh
April 2014	Deutsche Bank Roadshow	Deutsche Bank	Frankfurt, Amsterdam, Hague, Rotterdam, Paris
April 2014	Guosen Securities Conference	Guosen Securities	Shenzhen
April 2014	Daiwa Roadshow	Daiwa	Tokyo
May 2014	Morgan Stanley Fifth Annual Hong Kong Investor Summit	Morgan Stanley	Hong Kong
May 2014	Deutsche Bank Asia Summit	Deutsche Bank	Singapore
May 2014	HSBC Singapore Roadshow	HSBC	Singapore
June 2014	BNP Paribas London Roadshow	BNP Paribas	London
June 2014	Reverse Roadshow – Visit to Upstream Suppliers	The Company	Denmark, France

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (Continued)

Date	Event	Organizer	Location
July 2014	Standard Chartered Scandinavia Roadshow	Standard Chartered	Stockholm, Copenhagen
August 2014	BoA Merrill Lynch Hong Kong Roadshow	BoA Merrill Lynch	Hong Kong
August 2014	RHB OSK Hong Kong Roadshow	RHB OSK	Hong Kong
September 2014	Normura China Investor Forum	Normura	Shanghai
September 2014	Guotai Junan Shanghai Investor Conference	Guotai Junan Securities	Shanghai
September 2014	CICC London Conference	CICC	London
September 2014	BoA Merrill Lynch Global Consumer & Retail Conference	BoA Merrill Lynch	London
September 2014	Jefferies US Roadshow	Jefferies	Boston, New York
September 2014	Macquarie Presentation	Macquarie	Hong Kong
November 2014	Citi China Investor Conference 2014	Citi	Macau
November 2014	Reverse Roadshow – Mama100 O2O Flagship Store Conference	The Company	Boao
December 2014	Industrial Securities Shanghai Investor Conference	Industrial Securities (興業證券)	Shanghai
December 2014	CITIC Sanya Investor Conference	CITIC Securities	Sanya
December 2014	BOCI Shenzhen Investor Conference	BOCI	Shenzhen

The last shareholders' meeting was the AGM 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 of Directors. Particulars of the major items considered at the AGM are set out in the circular dated 3 April 2014. All proposed ordinary resolutions were passed by way of poll at the AGM.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (Continued)

The forthcoming AGM will be held on 15 May 2015. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

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

During the year under review, the Company has not made any changes to its Memorandum and Articles of Association. An updated version of the Company's Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

SHAREHOLDER RIGHTS

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

Pursuant to Article 58 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the joint company secretaries of the Company by mail at Unit No. 3508, 35th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the joint company secretaries by mail at Unit No. 3508, 35th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong. The joint company secretaries forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the Chief Executive Officer of the Company.

EXECUTIVE DIRECTORS

Mr. Luo Fei (羅飛), aged 51, is an executive Director and Chief Executive Officer of the Company. Mr. Luo was appointed as an executive Director on 30 April 2010, and is also a director of the Company's subsidiaries BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou"), BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou"), Biostime (Guangzhou) Education Management Inc. ("Biostime Education"), Biostime International Investment Limited ("Biostime Investment"), Biostime Hong Kong Limited ("Biostime Hong Kong"), Parenting Power International Holdings Limited ("Parenting Power Holdings"), Parenting Power Investment Limited ("Parenting Power Investment"), Parenting Power Hong Kong Limited ("Parenting Power Hong Kong"), Mama100 International Holdings Limited ("Mama100 Holdings"), Mama100 International Investment Limited ("Mama100 Investment"), Mama100 Hong Kong Limited ("Mama100 Hong Kong"), Guangzhou Hapai Information Technology Co., Ltd. ("Guangzhou Hapai") and Adimil (Changsha) Nutrition Products Limited ("Changsha Adimil"). Mr. Luo is also 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 company controlled by the Group through a series of structure contracts. He is also the supervisor of the Company's subsidiary Biostime (Guangzhou) Health Products Limited ("Biostime Health"). Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals (China) Limited ("Biostime Pharmaceuticals") with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the Securities and Futures Ordinance (the "SFO"). For further details, please refer to page 69 of this Annual Report. Mr. Luo is primarily responsible for the Company's overall strategies, planning and business development. Mr. Luo has approximately 20 years of experience in the biotechnology industry. From June 1989 to October 1990, Mr. Luo was employed by Kanghai Enterprise Development Company of Guangzhou Economic and Technological Development Zone (廣州經濟技術開發區康海企業發展公司) as an assistant engineer. In February 1993, Mr. Luo established Guangzhou Baixing Bioengineering Co., Ltd. (廣州百星生物工程有限公司) and acted as its legal representative and general manager. In December 1994, Mr. Luo established Guangzhou Biohope Co., Ltd. ("Guangzhou Biohope"), a company engaged in the import and distribution of raw materials for personal care products and household cleaning products, and acted as Guangzhou Biohope's legal representative from December 1994 to June 2010, and has been a director of Guangzhou Biohope since December 1994. In August 1999, Mr. Luo established Biostime Guangzhou and has served as its general manager since then. Mr. Luo is also the vice-chairman of the Mommy Baby Products Association of Guangdong Province (廣東省孕嬰童用品協會) and chairman of the management committee of the Biostime China Foundation for Mothers and Children. Mr. Luo received a bachelor's degree in microbiological engineering in July 1985 and a master's degree in industrial fermentation in June 1988 from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院). Mr. Luo has also completed the China Europe International Business School (中歐國際工商學院) EMBA program and was awarded a master's degree in business administration in September 2008.

Ms. Kong Qingjuan (孔慶娟), aged 53, is an executive Director and the Chief Operating Officer of the Company. Ms. Kong was appointed as an executive Director on 12 May 2010, and is also a director and the general manager of the Company's subsidiaries Biostime Health and Changsha Adimil, and a supervisor of the Company's subsidiaries BMcare Guangzhou, Biostime Guangzhou, Biostime Education, Guangzhou Hapai and Mama100 E-commerce. Ms. Kong is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. Ms. Kong has approximately 18 years of experience in the biotechnology industry and is mainly responsible for the overall procurement, logistics, production, as well as internal compliance and control. Ms. Kong joined the Group in July 2000 and was appointed as a director of Biostime Guangzhou from December 2002 to December 2010, and she was the chief operating officer of Biostime Guangzhou from January 2006 to December 2010. Prior to joining the Group, Ms. Kong worked for Hospital of Traditional Chinese Medicine of Hebei Province (河北省中醫院) from January 1983 to July 1995. From August 1995 to February 2000, Ms. Kong was employed by Dalian Sanzhu Bio-Cosmetic Co., Ltd. (大連三株生態化妝品有限公司). Ms. Kong graduated from Hebei Medical University (河北醫科大學), formerly known as Hebei Medical Institute (河北醫學院), with a bachelor's degree in clinical medicine in July 1985.

NON-EXECUTIVE DIRECTORS

Dr. Zhang Wenhui (張文會), aged 50, is a non-executive Director of the Company. Dr. Zhang was re-designated to a non-executive Director on 25 June 2012. Dr. Zhang was previously an executive Director of the Company from 12 May 2010 to 24 June 2012. Dr. Zhang is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. Dr. Zhang has also been an independent director of Stoltze Specialty Processing, LLC in the United States since September 2012. Dr. Zhang has almost 18 years of experience in the biotechnology industry, through teaching in universities and working for several biotechnology companies. Dr. Zhang was a lecturer of bioengineering at South China University of Technology (華南理工大學) from August 1994 to August 1996. From December 2000 to August 2003, Dr. Zhang was employed as an assistant research professor in the department of chemical engineering in University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States. After that, Dr. Zhang was employed as a scientist in the process development department of Xoma (US) LLC in the United States from September 2003 to September 2005. Dr. Zhang joined the Group in October 2005 as the chief technology officer of Biostime Guangzhou and became a general manager of the technology center of Biostime Health in December 2010, where he was primarily responsible for the research and development, product quality control and technology support, and held this position until 24 June 2012. Dr. Zhang was also the chief technology officer and head of the Quality Assurance Department of the Company until 24 June 2012 and a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou until 2 September 2012. Dr. Zhang received a bachelor's degree in biochemical engineering from East China University of Science and Technology (華東理工大學), formerly known as East China College of Chemical Engineering (華東化工學院), in July 1985, and a master's degree in industry fermentation and a doctorate in fermentation engineering from South China University of Technology (華南理工大學) in July 1988 and September 1994, respectively. In September 1997, Dr. Zhang completed an international post graduate university course in microbiology at Osaka University (大阪大學). Dr. Zhang conducted research as a post-doctoral scientist in the department of food science and technology in the University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States from October 1997 to November 2000.

Mr. Wu Xiong (吳雄), aged 59, is a non-executive Director of the Company. Mr. Wu was appointed as a nonexecutive Director on 12 May 2010, and is also a director of the Mama100 E-commerce. Mr. Wu is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. Mr. Wu has been the legal representative and general manager of Hainan Fangsheng Industry Development Co., Ltd. (海南方盛實業發展有限公司) since December 2009 and is responsible for the overall management of its business operation. Mr. Wu worked in the Administration for Industry and Commerce of Haikou City (海口市工商行政管理局) between December 1980 and December 1997. From December 1997 to December 2000, Mr. Wu was employed by Haikou Market Properties Development Co., Ltd. (海口市市場物業發展有限公司). From December 2000 to December 2009, Mr. Wu was the legal representative and general manager of Hainan Junjie Automobile Sale Co., Ltd. (海南駿捷汽車銷售有限公司) and was responsible for its overall business operations. Mr. Wu was a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou until 2 September 2012. Mr. Wu graduated from Haikou No.1 Middle School (海口市第一中學) in July 1975.

NON-EXECUTIVE DIRECTORS (Continued)

Mr. Luo Yun (羅雲), aged 54, is a non-executive Director of the Company. Mr. Luo was appointed as a non-executive Director on 12 May 2010, and is also a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health, BMcare Guangzhou, Biostime Education, Biostime Investment, Biostime Hong Kong, Parenting Power Holdings, Parenting Power Investment, Parenting Power Hong Kong, Mama100 Holdings, Mama100 Investment, Mama100 Hong Kong and Guangzhou Hapai. Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 69 of this Annual Report. From 1980 to 1993, Mr. Luo was employed by Haikou Qiongshan Medical Co., Ltd. (海口瓊山醫藥公司). Mr. Luo was employed as a sales manager for Guangzhou Biohope from December 1994 to August 1999. From August 1999 to September 2009, Mr. Luo held various positions in Biostime Guangzhou including the sales director and the director in charge of the Mama100 membership center. From September 2009 to December 2011, Mr. Luo was the general manager and director of a company formerly known as Biostime Health and Nutrition (Guangzhou) Limited (now known as Leseil Health and Nutrition (Guangzhou) Limited), where he was responsible for the overall strategies and business development. Mr. Luo graduated from Continuing Education School of Jinan University (暨南大學成人教育學院) in July 1987 with a certificate of graduation in business and economic management. Mr. Luo has also completed the EMBA course at Fudan University (復旦大學) in Shanghai and was awarded an EMBA degree in July 2012. Mr. Luo is the elder brother of Mr. Luo Fei, the Chairman of the Board and one of the Company's executive Directors.

Mr. Chen Fufang (陳富芳), aged 51, is a non-executive Director of the Company. Mr. Chen was appointed as a non-executive Director on 12 May 2010, and is also a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health, BMcare Guangzhou, Biostime Education, Biostime Investment, Biostime Hong Kong, Parenting Power Holdings, Parenting Power Investment, Parenting Power Hong Kong, Mama100 Holdings, Mama100 Investment, Mama100 Hong Kong, Guangzhou Hapai and Mama100 E-commerce. Mr. Chen is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. Mr. Chen has been a director and the general manager of Guangzhou Biohope since March 1999, and its legal representative since June 2010, where he oversees overall business operations and management. Prior to that, Mr. Chen worked for Guangdong Textile Industry Group Company (廣東省紡織工業總公司), a company engaged in the import and export of textile products and apparels, from 1988 to 1997, where he was recognized as chemical fiber assistant engineer (化纖助理工程師) and chemical fiber engineer (化纖工程師) in March 1988 and November 1992, respectively. Mr. Chen graduated from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院), with a bachelor's degree in chemical fiber in July 1985 and a master's degree in chemical fiber in June 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ngai Wai Fung (魏偉峰), aged 53, is an independent non-executive Director of the Company. Dr. Ngai was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Audit Committee of the Company. Dr. Ngai is the managing director of MNCOR Consulting Limited (formerly known as MN Consulting Limited) and the chief executive officer of SW Corporate Services Group Limited, a specialty corporate governance and compliance services provider to companies in pre-IPO and post-IPO stages. Prior to that, he was the director and head of listing services of an independent integrated corporate services provider. He has over 20 years of senior management experience including acting as the executive director, chief financial officer and company secretary, most of which are in the areas of finance, accounting, internal control and regulatory compliance, corporate governance and secretarial work for listed issuers including major red chips companies. He had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities. Dr. Ngai is also a president of the Hong Kong Institute of Chartered Secretaries (the "HKICS") and the Adjunct Professor of Law of Hong Kong Shue Yan University. Dr. Ngai was an independent non-executive director of China Life Insurance Company Limited (中國人壽保險股份有限公司) from December 2006 to May 2009 and an independent non-executive director of Franshion Properties (China) Limited (方興地產（中國）有限公司) from May 2007 to June 2011, and an independent non-executive director of China Railway Construction Corporation Limited（中國鐵建股份有限公司）from November 2007 to October 2014. In addition, Dr. Ngai is currently an independent non-executive director or independent director and a member or chairman of the audit committee of the below companies:

Company Name (English)	Company Name (Chinese)	Name of Stock Exchange	Stock Code	Appointment Date
BaWang International (Group) Holding Limited	霸王國際（集團）控股有限公司	Main Board	1338	December 2008
Bosideng International Holdings Limited	波司登國際控股有限公司	Main Board	3998	September 2007
China Coal Energy Company Limited	中國中煤能源股份有限公司	Main Board	1898	December 2010
Juda International Holdings Limited	鉅大國際控股有限公司	Main Board	1329	December 2013
LDK Solar Co., Ltd.	不適用	was listed on NYSE now listed on OTC Pink Limited Information	LDKYQ	July 2011
Powerlong Real Estate Holdings Limited	寶龍地產控股有限公司	Main Board	1238	June 2008
Sany Heavy Equipment International Holdings Company Limited	三一重裝國際股份有限公司	Main Board	631	November 2009
SITC International Holdings Company Limited	海豐國際控股有限公司	Main Board	1308	September 2010
China Railway Group Limited	中國中鐵股份有限公司	Main Board	390	June 2014
Yangtze Optical Fibre and Cable Joint Stock Limited Company	長飛光纖光纜股份有限公司	Main Board	6869	September 2014

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Dr. Ngai is a fellow of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the HKICS, a fellow of Hong Kong Institute of Directors and a member of Hong Kong Securities and Investment Institute. Dr. Ngai received a master's degree in corporate finance from Hong Kong Polytechnic University in 2002 and a master's degree in business administration from Andrews University of Michigan in 1992 and a doctorate in Economics (Finance) from Shanghai University of Finance and Economics (上海財經大學) in 2011. Dr. Ngai was appointed by the Chief Executive of The Hong Kong Special Administrative Region as a member of Working Group on Professional Services under the Economic Development Commission for two years in 2013 and re-appointed for further two years in 2015 and a member of Qualification and Examination Board of the Hong Kong Institute of Certified Public Accountants, and a member of the General Committee of the Chamber of Hong Kong Listed Companies.

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

Mr. Tan Wee Seng (陳偉成), aged 59, is an independent non-executive Director of the Company. Mr. Tan was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Company's Remuneration Committee. Mr. Tan is also a non-executive director of Xtep International Holdings Limited (Stock Code: 1368), an independent non-executive director of Sa Sa International Holdings Limited (Stock Code:178) and an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited (Stock Code: 884), the shares of all of which are listed on the Main Board of the Stock Exchange. In addition, Mr. Tan is an independent director of ReneSola Ltd (Stock Code: SOL), the shares of which are listed on the NYSE. Mr. Tan is also a board member and chairman of the finance committee of Beijing City International School, an academic institution in Beijing. Mr. Tan has been appointed as an independent non-executive director and chairman of the remuneration committee of Sinopharm Group Co., Ltd. (Stock Code: 1099) listed on the Main Board of the Stock Exchange on 21 September 2014. Mr. Tan was an independent director and chairman of the audit committee of 7 Days Group Holdings Limited listed on the NYSE between November 2009 and July 2013 until it was privatized. He was the chairman of the special committee for the privatization of 7 Days Group Holdings Limited from October 2012 to July 2013. Mr. Tan has over 30 years of financial management, corporate finance, merger and acquisition, business management and strategy development experience. Mr. Tan has held various management and senior management positions in a number of multi-national corporations. Mr. Tan was previously the managing director of AFE Computer Services Limited, a Reuters subsidiary located in Hong Kong which was mainly engaged in domestic equity and financial information services; director of Infocast Pty Limited, a Reuters subsidiary in Australia; and the regional finance manager of Reuters East Asia. From 1999 to 2002, Mr. Tan was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. From 2003 to 2008, Mr. Tan was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Tan is a professional accountant and a fellow member of the Chartered Institute of Management Accountants in United Kingdom, and the Hong Kong Institute of Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Professor Xiao Baichun (蕭柏春), aged 67, is an independent non-executive Director of the Company. Professor Xiao was appointed as an independent non-executive Director on 12 July 2010. Professor Xiao is a professional and scholar in management science. Professor Xiao has strong academic background and extensive experience in business management, which is relevant to the business operations of the Company in matters relating to corporate governance practices. From September 1990, he was with Seton Hall University as an assistant professor and was promoted to associate professor with tenure in April 1994 and to professor in March 1999. He was also the chairman of computing and decision sciences department of Seton Hall University from 1995 to 1997. Since September 1998, he has been with Long Island University pursuing his teaching career and is now a senior professor. He has also been the chairman of the department of management of Long Island University since 2003. Professor Xiao was appointed by various universities in China as either a chair professor or a visiting professor. For example, he has been a faculty member of Peking University (北京大學) since 2004, a visiting professor of Chinese University of Hong Kong (香港中文大學) since 2004, a guest professor and a director of Chinese American Center for service and operation management in Southwest Jiaotong University (西南交通大學) from 2004 to 2010, a distinguished professor of EMBA program in Fudan University (復旦大學) since 2005 and a lifetime professor of the management school of Sichuan University (四川大學) since May 2000. As a testament to his achievement, Professor Xiao received various awards in his research area. He received "University Fellowship" from Wharton School, University of Pennsylvania in 1986 and 1987 and "Outstanding Scholarship Award" from Seton Hall University in 1998 and 1999. He also received from College of Management of Long Island University "Outstanding Scholarship Award" in 2006, and "Teaching Excellence Award" from Peking University (北京大學) in 2012. Professor Xiao was named as Fulbright Senior Scholar by US Fulbright Foundation in 2012. Professor Xiao currently serves as a member of the board of directors of Nanjing University (南京大學). Professor Xiao received a bachelor's degree in mathematics from Nanjing University (南京大學) in July 1982, a MBA degree from Catholic University of Leuven, Belgium in March 1985, and his Ph.D. from Wharton School, University of Pennsylvania in December 1990.

SENIOR MANAGEMENT

Mr. Zhao Li (趙力), aged 46, joined the Group in October 2004, and since March 2014, he has been the Chief Executive Officer of Mama100 membership center of the Group Prior to that，He was a vice-president of the Group from October 2014 to February 2015, He was employed by Chenzhou Institute for Drug Control (郴州市藥品檢驗所) till January 2003. He joined us in October 2004 as the regional sales manager for Guangdong Province, and was promoted to be our regional sales manager for South China in December 2006, sales and marketing director for infant formula products in July 2007, and sales and marketing director in December 2007. Mr. Zhao was appointed as the general manager of our sales and marketing center in May 2010 and is now in charge of the operation of sales channels, overall marketing strategies and promotion tactics, by leveraging his abundant experience in sales and marketing. Mr. Zhao obtained a bachelor's degree in Chinese medicine from Hunan College of Traditional Chinese Medicine (湖南中醫學院) in July 1991. He has also enrolled in the EMBA courses of South China University of Technology (華南理工大學) since December 2009.

SENIOR MANAGEMENT (Continued)

Mr. Zhu Dingping (朱定平), aged 39, joined the Group in February 2007 and has been the General Manager for the brand project department of "Biostime" of the Group since January 2014, the biggest of the four brand project departments of the Group. Before that, Mr. Zhu was our senior sales director and was mainly responsible for the overall sales affairs. Prior to joining the Group, he had over 10 years of experience in the pharmaceutical industry mainly obtained from working for companies in this industry. He was with Guangdong Minglin Pharmaceutical Co., Ltd. (廣東明林藥業有限公司) as a regional sales manager from August 1996 to December 2006. Mr. Zhu received a certificate of graduation in pharmaceutical science from China Pharmaceutical University (中國藥科大學) in July 2006 for completing the adult higher education courses. He also participated in several advanced trainings so as to improve his professional skills. For instance, in September 2004, he attended the executive training program jointly held by the Asia-Pacific Institute of Business of the Chinese University of Hong Kong (香港中文大學亞太研究所) and Nin Jion Medicine Mfy (HK) Ltd. (香港京都念慈菴總廠有限公司). He had also completed the Business Administration training courses of Lingnan (University) College, Sun Yat-Sen University (中山大學嶺南(大學)學院) and received the certificate of completion in February 2003. He is currently enrolling in the EMBA courses of Management School, Jinan University (暨南大學管理學院). He obtained a certificate of pharmacist (藥師資格證) by the Professional Titles ReformWork Leading Group of Guangdong Drug Administration (廣東省藥品監督管理局職稱改革領導小組) in March 2003. He has completed the China Europe International Business School (中歐國際工商學院) CMO training course and received the certificate of completion in July 2014.

Dr. Patrice Malard, aged 61, joined the Group as our chief scientific officer and General Manager of Biostime Pharma (a subsidiary of the Company in France) in October 2010 and was appointed as the chief technology officer of the Company as well as the general manager of the technology center of Biostime Health in June 2012. He is responsible for research and development, product quality control and technology development. He was the scientific consultant of Biostime Guangzhou from 1 March 2008 to 30 September 2010. Dr. Patrice has approximately 30 years of experience in the nutrition products industry. From October 1981 to March 1990, he worked for Gist Brocades SA as a science director in the field of industrial enzymes. From April 1990 to June 1991, he was employed by CPIAA SA, an agro-consulting group, as a manager. From June 1991 to November 1994, he was the strategy and development director of the French subsidiary of Pioneer Hi-Bred in agro-seeds. He also has worked as a director of Silab Sarl in cosmetic ingredients and sales and Business development director of Lallemand SAS Human Nutrition division for the period from February 1995 to October 2007. From March 2008 till now, he is the owner of Kloarys Développement Sarl and acted as the general manager. He obtained his Ph.D. in molecular and cellular Biology from Lille University of Science and Technology in 1981.

SENIOR MANAGEMENT (Continued)

Mr. Chen Guanghua (陳光華), aged 40, joined the Group in March 2008. He was the director in charge of Mama100 membership center and is mainly responsible for the operation and development of such center, including membership marketing, member services, membership platform, member store services. He was promoted to be the Chief Operating Officer of the Mama100 membership center on March 2015. He had over 10 years of working experience in the field of information technology, especially the ERP system, CRM system and enterprise informatization, before joining the Group. From July 1997 to January 1999, he worked in Guangdong Fotao Group Co., Ltd. (廣東佛陶集團股份有限公司) as an assistant engineer. From January 1999 to February 2008, he was employed by Guangzhou Tianjian Computer System Engineering Co., Ltd. (廣州天劍計算機系統工程有限公司) and assumed positions including software engineer, department manager and deputy general manager, respectively. Mr. Chen was selected as an expert in science and technology for the database of experts by Science and Information Technology Bureau of Guangzhou (廣州市科技和信息化局) and he also won the "Science and Technology Award of Guangzhou" (廣州市科學技術獎) by Guangzhou Municipal Government in October 2006 and the "Science and Technology Award of Foshan" (佛山市科學技術進步獎) by Foshan Municipal Government in June 2006. In July 1997, Mr. Chen obtained a bachelor's degree in silicate science and engineering from Tongji University (同濟大學). In December 2004, he obtained a master's degree in computer technology from South China University of Technology (華南理工大學). He has also completed the China Europe International Business School (中歐國際工商學院) EMBA program and was awarded a master' s degree in business administration in October 2013..

Ms. Laetitia Garnier (安玉婷), aged 34, joined the Group in July 2010. She is the international cooperation director of the Group and is mainly responsible for investor relations and overseas cooperations, investment and mergers and acquisitions. From December 2003 to August 2010, she worked for French Trade Commission in South China and was mainly responsible for providing lobbying and operational support to French companies exporting and investing in China, especially in the field of consumer goods and health sectors. Prior to that, she also has interned with the United States Senate in Washington D.C. from January 2001 to June 2001, the Banque Populaire Group in Paris from July 2001 to September 2001 and the LVMH Group in Paris from September 2002 to March 2003. In July 2003, she obtained a master's degree in business administration and corporate strategy from Institute of Political Studies in Paris.

Mr. Cao Wenhui (曹文輝), aged 37, joined the Group in March 2007. He is the Chief Finance Officer of the Group and is mainly responsible for the overall financial and accounting affairs as well as IT management of the Group. He has approximately 9 years of experience in financial management. He worked in Guangzhou BlueMoon Co., Ltd. (廣州藍月亮有限公司) as an accounting supervisor (管理會計) until May 2003. Between July 2003 and June 2005, Mr. Cao was an assistant finance manager in Guangzhou Devotion Thermal Equipment Co., Ltd. (廣州迪森熱能設備有限公司). From July 2005 to February 2007, he was with Mead Johnson (Guangzhou) Co., Ltd. (美贊臣(廣州)有限公司) as a senior accountant. Mr. Cao obtained a bachelor's degree in accounting from Anhui Finance & Trade College (the predecessor to Anhui University of Finance and Economics) (安徽財貿學院(現為安徽財經大學)) in December 2001. He also obtained the MBA degree of Carlson School of Management, University of Minnesota (明尼蘇達大學卡爾森管理學院) in July 2013. Mr. Cao is now a non-practicing member of Guangdong Provincial Institute of Certified Public Accountants (廣東省註冊會計師協會). He also obtained the qualification of certified tax agent (註冊税務師) by the Department of Human Resources of Guangdong Province (廣東省人事廳) in June 2005.

SENIOR MANAGEMENT (Continued)

Mr. Hu Xiaocheng (胡曉成), aged 38, joined the Group in November 2004 and has been the director of the E-commerce department of "Biostime" of the Group since October 2014. Before that, Mr. Hu was our retail sales organization channel director. His experience is mainly in the sector of marketing and sales. He worked as a sales specialist for the Beijing s ales branch of Jiangxi Tecom Science Co., Ltd. (江西特康科技有限公司) from 2000 to 2003, and was mainly responsible for selling products to hospital clients in north China. He joined us as the manager of our Shangrao sales office in Jiangxi Province. Due to his sound working performance, he was promoted to be our sales manager for Ningbo City in February 2005, regional sales manager for Shanghai in February 2006 and senior manager for sales administration in February 2007. Mr. Hu was appointed as our senior key accounts manager in May 2010 and promoted to be our retail sales organization channel director in September 2011 and by leveraging his experience in marketing and sales, he is now responsible for our sales channel of retail sales organizations. Mr. Hu received a junior college diploma in computer accounting from Jiangxi Radio and TV University (江西廣播電視大學) in July 1999. He has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since September 2010.

Mr. Xu Lesheng (徐樂生), aged 40, is the strategy and development director of the Group and is mainly responsible for our strategies and planning affairs. He has been with the Group since August 2001 and was appointed as our strategy and development director in September 2011. Before joining the Group, Mr. Xu had rich experience in the pharmaceutical industry, serving in different positions in product development, marketing and corporate strategic planning. From November 1998 to June 1999, he was employed by Xiamen Feipeng Industrial Co., Ltd. (廈門飛鵬工業有限公司). From June 1999 to March 2001, he worked in Nanjing Cuccess Pharmaceutical Co., Ltd. (南京臣功製藥有限公司). Mr. Xu obtained a bachelor's degree in chemical engineering and biochemistry engineering from Huaqiao University (華僑大學) in July 1998. He has also enrolled in the EMBA courses of graduate school of Xiamen University (廈門大學) since September 2010.

Mr. Xu Zhenjie (許振傑), aged 37, is the human resource director of the Group and is responsible for the overall human resource affairs. He has approximately 10 years of working experience in human resource management. From July 2001 to March 2006, he worked in the strategy development department and then was a human resource and administration manager in Guangzhou Ouya Mattress & Furniture Co., Ltd. of Symbol Group (廣州歐亞床墊家具有限公司). Between March and May of 2006, he was with Guangzhou Baiyun Tianjun International MediaCo., Ltd. (廣州白雲天駿國際傳媒有限公司) as a human resource manager. He joined the Group in December 2006 and was appointed human resource director in September 2011. Mr. Xu obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2001. He has also enrolled in the EMBA courses of Carlson School of Management, University of Minnesota (明尼蘇達大學卡爾森管理學院) since September 2010. Mr. Xu has participated in several professional training courses. For instance, senior human resources manager training program by the Professor& Manager Institute of Sun Yat-Sen University (中山大學教授經理研究會) from 30 March 2002 to 14 April 2002, Tsinghua project management training by Aura International Management Training Centre in December 2008 and human resources management program by China Europe International Business School (中歐國際工商學院) in December 2008. He received the occupational qualification certificate of the first level of enterprise human resource management consultant (企業人力資源管理師) in December 2009 and the certificate of talent assessment consultant (人才評測師) in May 2006.

SENIOR MANAGEMENT (Continued)

Mr. Xiong Huoyan (熊火焰), aged 43, has been the director of the national education consulting business under the brand project department of "Parenting Power" as of January 2014, one of the four major brand project departments of the Group. Before that, Mr. Xiong was our promotion director and was mainly responsible for promotion affairs. He joined the Group in December 2001 as the business representative for Guangdong Province and has been with the Group since then. He has over 10 years of experience in product promotion. He was promoted to be our promotion manager in March 2006, senior promotion manager in March 2008 and promotion director in September 2011, and is now mainly responsible for promotional affairs of the Group. Mr. Xiong received a certificate of graduation in thermal power engineering after three years' study in the department of Material Science & Engineering of Jingdezhen Ceramic Institute (景德鎮陶瓷學院) in July 1996. He has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since September 2010.

Ms. Xu Sa (許颯), aged 42, is the director of the research and development department of our Group. She joined the Group in July 2012 as the senior manager of the research and development department and was promoted to be the director of the research and development in January 2014. Ms. Xu obtained her bachelor's degree in food science and engineering in 1995 and master's degree in storage and processing of agricultural products in 1998 in Huazhong Agricultural University (華中農業大學). Ms. Xu worked as a teacher in the College of Food Science and Nutritional Engineering of China Agriculture University (中國農業大學) from August 1998 to July 2000. After that, Ms. Xu pursued her overseas study majoring in food science and technology in Iowa State University and successfully obtained her PHD degree in 2004. From November 2004 to November 2007, Ms. Xu worked as the postdoctoral researcher in the Food Science and Nutrition department in University of Minnesota. Prior to joining the Group, Ms. Xu was employed by the research and development department of Land O'Lakes Inc. (the U.S. Company) as a senior scientist from November 2007 to July 2012.

Mr. Zhu Hui (朱輝), aged 42, is the director of the public affairs department of the Group. Mr. Zhu joined the Group in November 2007 and worked as the manager for the central and western regions of the promotion department till April 2010 and then promotion manager for the southwest and headquarter areas from April 2010 to May 2012. He was promoted to be the senior manager of the public affairs department in May 2012 followed by the director of the public affairs department in January 2014. Mr. Zhu studied in Chongqing Medical University (重慶醫科大學) from September 1991 to July 1996 and received his bachelor's degree in clinical medicine in 1996. After graduation, he was employed by Sichuan Forestry Center Hospital (四川省林業中心醫院) as a doctor at the surgery department until July 1998. From August 1998 to August 2000, he was with Beaufour- Ipsen (Tianjin) Pharmaceutical Co., LTD. (博福-益普生(天津)制藥有限公司) as the representative in the sales department. From September 2000 to July 2002, Mr. Zhu worked for Hainan Xin Wanhe Pharmaceutical Co., Ltd (海南新萬和藥業有限公司) as the officer of the southwest area. Prior to joining the Group, Ms. Zhu worked at the Sichuan office of Beijing Hanmi Pharm. Co.,Ltd. (北京韓美藥品有限公司) as a sales manager from September 2002 to October 2007. Mr. Zhu has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since October 2012.

SENIOR MANAGEMENT (Continued)

Ms. He Lixia (何利霞), aged 37, is the director of the brand project department of "BMcare", one of the four brand project departments of the Group. Ms. He joined us in April 2008 as the offtrade sales manager for south China area, and was promoted to be the national offtrade sales manager of the sales management department in April 2009, manager of the channel marketing department in January 2011, senior manager of the baby products business department in October 2011, senior manager of the sales management department for "BM care" business in May 2012 and director of the brand project department of "BM care" in January 2014. Ms. He received her bachelor's degree in international enterprise management from South China University of Technology (華南理工大學) in 2000. After graduation, she worked at the Sales Department as a business supervisor at Guangzhou Ideal Information Industry (Group) Co., Ltd. (廣州理想信息產業有限公司). From August 2001 to March 2005, she was employed by Avon Products (China) Co., Ltd. (雅芳(中國)有限公司) and worked as the manager of the sales department for the Guangzhou district. From April 2005 to August 2005, she was with Wyeth Pharmaceutical Co., Ltd (惠氏制藥有限公司) as the key accounts manager for the south China region in the health medicine department. From September 2005 to March 2008, Ms. He was the sales director in the sales department of Guangzhou Yixin Trading Company Ltd. (廣州億鑫貿易有限公司). Ms. He has also enrolled in the EMBA courses of Lingnan College of Sun Yat-Sen University (中山大學) since December 2012.

Mr. Liu Shifeng (劉世鋒), aged 36, is the general manager of the brand project department of "ADIMIL(素加)", one of the four brand project departments of the Group. He joined the Group in May 2004 as the supervisor in charge of Shaoxin office and was promoted to be the provincial manager of Hubei province in August 2005, manager of the Hubei and Henan provinces in August 2006, director of the Hubei and Henan provinces in July 2012, area director for Hubei province in 2013, and director of the brand project department of "ADIMIL" in January 2014. Mr. Liu studied in the Jinggangshan Medical College (井崗山醫學高等專科學校) majoring in clinical medicine from September 1997 to July 2000. After graduation, he was employed by the Guangzhou Division of Wangson Biotechnology Groups Inc. (美國華盛集團廣州分部) as an OTC supervisor from August 2000 to April 2001. Mr. Liu worked in Guangzhou Xiangxue Pharmaceutical Co., LTD. (廣州市香雪制藥) as an OTC supervisor in 2001 and was promoted to be a district supervisor in 2002. Mr. Liu has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since September 2011.

Mr. Tang Haigang (湯海剛), aged 43, joined the Group as Supply Chain Director in October 2014. Mr. Tang has strong backgrounds in sourcing and quality assurance, as well as good experience in general management. He worked as a quality engineer in Effem Foods (Beijing) Co., Ltd. (愛芬食品（北京）有限公司) from July 1994 to February 1998. Following that, he worked for Procter & Gamble (China) Co., Ltd., (寶潔（中國）有限公司) as QA Manager and later as Senior Purchasing Manager from March 1998 to February 2003. From March 2003 to December 2004, Mr. Tang worked as Deputy General Manager at Intercos Cosmetics (Suzhou) Co., Ltd. (瑩特麗化妝品（蘇州）有限公司). After that, he joined Johnson & Johnson and served as Associate Sourcing Director (Asia Pacific) till July 2012. Prior to joining the Group, Mr. Tang worked for Revlon China as Asia Pacific Sourcing Director from August 2012 to May 2014. Mr. Tang holds an MBA degree from Jinan University and a Bachelor's Degree in Engineering (Machine Design and Manufacturing) from South China University of Technology.

SENIOR MANAGEMENT (Continued)

Mr. Hu Fangming (胡芳明), aged 39, joined the Group in June 2014. He is the global manufacturing director of the production operation department of the Group. Mr. Hu studied in Nanjing University of Science and Technology (南京理工大學) from September 1994 to July 1998 and received his bachelor's degree in "Power system and its automation" in 1998. After graduation, he joined Mars foods Beijing Co., Ltd (瑪氏食品北京有限公司), ever worked as project manager, successfully set up the first Snickers production line and several packing lines in Beijing Huairou plant. And from June 2005 to September 2009, moved to Mars Jiaxing site, worked as shift production manager, supported site director built up a green field new plant and started up successfully. From October 2009 to May 2014, he worked for Dumex baby foods Co., Ltd (多美滋嬰幼兒食品有限公司) as a plant manager, and this plant had been recognized as a bench mark plant in Danone Group.

Mr. Zhang Qizhang (張琦章), aged 31, joined the Group in June 2014. He is now the director of Marketing, Biostime Business Unit and assumed additional responsibility as Director of Corporate Innovation Marketing Center. Mr. Zhang obtained his bachelor's degree in public management in Renmin University of China (中國人民大學) in June 2007. After graduation, he was employed by Procter & Gamble (China) Co., Ltd. (寶潔（中國）有限公司) as a brand manager at the marketing department until May 2014.

Ms. Yang Wenyun (楊文筠), aged 31, joined the Group in August 2005 and was appointed as one of the joint company secretaries of the Company on 12 July 2010. She was also the senior manager of the Listing Affairs and Risk Management Department and was promoted to be the director of the Department in January 2014. Ms. Yang started her professional career with the Group and has obtained substantial experience in administration, corporate governance, legal affairs, risk management and public relations over the past eight years with the Group. From August 2005 to December 2008, she worked as an assistant of public affairs and was mainly responsible for the legal affairs and public relations of the Group. Concurrently, being an assistant to the general manager since November 2006, she was responsible for part of administrative affairs of the Group. From December 2008 to February 2010, she was promoted to be the legal manager of the Group and was responsible for the overall legal affairs and public relations. In February 2010, she assumed the responsibility of leading the risk control department. Ms. Yang is now mainly in charge of administrative affairs, listing affairs, legal affairs and internal audit of the Group. Ms. Yang obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2005.

JOINT COMPANY SECRETARIES

Ms. Wong Tak Yee (黃德儀), aged 58, was appointed as one of the joint company secretaries of the Company and authorised representative of the Company on 12 July 2010. Ms. Wong is a director of the Corporate Services Division of Tricor Services Limited. Prior to joining Tricor Group in 2000, she was a senior manager of the company secretarial services department at Deloitte Touche Tohmatsu in Hong Kong. Ms. Wong is a Chartered Secretary and a fellow member of both The Institute of Chartered Secretaries and Administrators and the HKICS. She also received a master's degree of arts in English for the professions from The Hong Kong Polytechnic University in 2009 and holds the Practitioner's Endorsement Certificate issued by the HKICS. Ms. Wong has over 25 years of experience in providing corporate secretarial services.

JOINT COMPANY SECRETARIES (Continued)

Ms. Yang Wenyun (楊文筠). Her biography is set out in the Senior Management section of Biography of Directors and Senior Management of this Annual Report.

As disclosed in the Company's prospectus dated 3 December 2010, as Ms. Yang did not possess the qualifications required under the then Rule 8.17 of the Listing Rules, the Group had applied to the Stock Exchange for, and had been granted, a waiver from the listing date (17 December 2010). Upon expiration of such waiver on 17 December 2013, the Company had re-evaluated the relevant experience Ms. Yang had obtained during the above mentioned three-year period, and had demonstrated to the Stock Exchange that Ms. Yang is qualified to act as the company secretary of the Company under Rule 3.28 of the Listing Rules, which was agreed by the Stock Exchange on 17 March 2014.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2014 Interim Report of the Company are set out below:

Name of Director	Details of Changes
Ngai Wai Fung	Appointed as an independent non-executive director and chairman of the audit committee, nomination committee and remuneration committee and member of strategy committee of Yangtze Optical Fibre and Cable Joint Stock Limited Company on 24 September 2014, a company listed on the Main Board of the Stock Exchange (Stock Code:6869)
Tan Wee Seng	Appointed as an independent non-executive director and chairman of the remuneration committee of Sinopharm Group Co., Ltd (Stock Code: 1099) listed on the Main Board of the Stock Exchange on 21 September 2014.

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.

DIRECTORS' REPORT

The Board hereby presents its report and the audited financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group and is also engaged in overseas purchase. The Group is principally engaged in providing premium pediatric nutritional and baby care products to high-end mothers. Details of the principal activities of the Company's subsidiaries are set out in note 21 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2014 are set out in note 21 to the financial statements.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2014 are set out in the consolidated financial statements on pages 87 to 92 of the Annual Report. An interim dividend of HK$0.26 per ordinary share in respect of the six months ended 30 June 2014 were paid to the shareholders on 15 September 2014. The Directors recommended the payment of a final dividend of HK$0.41 per ordinary share for the year ended 31 December 2014 to be paid on or about Friday, 5 June 2015 to the shareholders whose names appear on the register of members of the Company on Wednesday, 27 May 2015. This recommendation has been incorporated in the financial statements as an allocation of retained profit within the equity section of the statement of financial position.

The final dividend of HK$0.41 per ordinary share is subject to approval by the shareholders in the forthcoming annual general meeting of the Company to be held on Friday, 15 May 2015 (the "2015 AGM"). Such dividend will be distributed from the retained profits of the Company. Details of the dividends for the year ended 31 December 2014 are set out in note 12 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2015 AGM

The register of members of the Company will be closed from Wednesday, 13 May 2015 to Friday, 15 May 2015, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2015 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 12 May 2015.

CLOSURE OF REGISTER OF MEMBERS (Continued)

(b) Entitlement to the proposed final dividend

The register of members of the Company will be closed from Friday, 22 May 2015 to Wednesday, 27 May 2015, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final 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 Thursday, 21 May 2015.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2014 are set out in note 14 to the financial statements.

CONVERTIBLE BONDS

On 20 February 2014, the Company issued the Convertible Bonds in an aggregated principal amount of HK$3,100.0 million. The net proceeds of RMB2,414.4 million from the issuance of the Convertible bond are intended to finance expansion of existing businesses and general corporate purposes. Details of the Convertible Bonds are set out in note 31 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2014 are set out in note 34 to the financial statements.

RESERVE

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2014 are set out in note 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves, including the share premium account and contributed surplus and retained profits, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to approximately RMB4,746.3 million, of which approximately RMB196.9 million has been proposed as a final dividend for the year. Details of the reserves of the Company as at 31 December 2014 are set out in note 37 to the financial statements.

CHARITABLE DONATIONS

The Group's donation to charity includes the donation of RMB0.1 for each box or can of any of the Group's products sold to Biostime China Foundation for Mother and Child established by the Group in cooperation with the Chinese Red Cross Foundation since 2007. For each of the three years ended 31 December 2012, 2013 and 2014, the Group's donations to charity were RMB2.7 million, RMB3.8 million and RMB6.6 million, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on pages 175 to 176. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

For the year ended 31 December 2014, the largest suppliers of the Group is Arla Foods amba ("Arla Foods"). Arla Foods has a broad range of dairy products from retail products such as milk, yoghurts, butter and cheese to milk powder, nutritional products and milk proteins developed for the global food industry. Arla Foods has a state-of-the-art integrated supply chain for milk powder and nutritional products based on top European quality standards.

Purchases by the Group from Arla Foods amounted to RMB429.4 million in 2014, accounting for 27.3% of the total purchases of the Group for the year, while the purchases made from the five largest suppliers amounted to RMB1,241.8 million, accounting for 78.9% of the total purchases of the Group for the year. None of the Directors or their close associates or any of the shareholders of the Company had any interest in any of the five largest suppliers of the Group.

DIRECTORS

The Directors of the Company during the year ended 31 December 2014 and up to the date of the Annual Report were as follows:

Executive Directors

Mr. Luo Fei
Ms. Kong Qingjuan

Non-executive Directors

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

DIRECTORS (Continued)

Independent non-executive Directors

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

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang, all the non-executive directors, shall retire from office by rotation and being eligible, offer themselves for re-election at the 2015 AGM.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 17 December 2010 to 16 December 2013, and automatically renewed for a term of three years commencing from 17 December 2013, until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the terms set out in the respective service contracts. Each of the executive Directors is entitled to a director's fee, and is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year of the Company may not exceed 5% of audited consolidated net profit of (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. An executive Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the performance-based bonus payable to him/her.

On 7 November 2013, three of the non-executive Directors, namely Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang, respectively entered into a letter of appointment for a term of three years commencing from 17 December 2013, automatically renewable upon expiration, until terminated by not less than one month's notice in writing served by either party on the other. Dr. Zhang Wenhui has entered into a letter of appointment as a non-executive Director with the Company for an initial term of three years commencing on 25 June 2012, automatically renewable upon expiration, until terminated by not less than one month's notice in writing served by either party on the other. Each of the non-executive Directors is entitled to a director's fee pursuant to their respective letters of appointment and/or supplementary agreements with the Company dated 29 November 2012.

Each of the independent non-executive Directors has entered into a letter of appointment for a term of three years commencing from 17 December 2012, automatically renewable upon expiration, until terminated by not less than one month's notice in writing served by the independent non-executive Directors on the Company or in accordance with the provisions set out in the respective letters of appointment. Each of the independent non-executive Directors is entitled to a director's fee.

None of the Directors who are proposed for re-election at the 2015 AGM has a service contract which is not determinable within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF THE DIRECTORS

Details of remuneration of the Directors during the year ended 31 December 2014 are set out in note 9 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 41 to 53 of the Annual Report.

EMOLUMENT POLICY

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and Mainland China, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a Pre-IPO Share Option Scheme, a Share Option Scheme, a Share Award Scheme and a 2013 Share Award Scheme (each as defined below) for its employees.

None of the Directors waived any emoluments during the year ended 31 December 2014.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2014, the interests and short positions of the Directors and the chief executives of the Company in the share capital, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Name of Director	Capacity/Nature of interest	Long/Short position	Shares or underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company *(Note 6)*
Luo Fei	Beneficial owner	Long position	621,239 *(Note 1)*	0.102%
	Beneficial owner	Long position	194,100 *(Note 2)*	0.032%
	Beneficiary of a trust	Long Position	450,000,000 *(Note 3)*	74.156%
Luo Yun	Beneficiary of a trust	Long Position	450,000,000 *(Note 3)*	74.156%
Kong Qingjuan	Beneficial owner	Long position	381,558 *(Note 1)*	0.063%
	Beneficial owner	Long position	99,000 *(Note 4)*	0.016%
Ngai Wai Fung	Beneficial owner	Long position	100,000 *(Note 5)*	0.016%
Tan Wee Seng	Beneficial owner	Long position	100,000 *(Note 5)*	0.016%
Xiao Baichun	Beneficial owner	Long position	100,000 *(Note 5)*	0.016%

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

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

Note 2: These are the Awarded Shares 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 11,600 Awarded Shares granted on 10 October 2014. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" below.

Note 3: As at 31 December 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.

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 6,000 Awarded Shares granted on 10 October 2014. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" below.

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" below.

Note 6: As at 31 December 2014, the total number of the issued shares of the Company was 606,825,765.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2014.

PRE-EMPTIVE RIGHTS

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

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 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 Scheme

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

The maximum number of shares which may be issued upon exercise of all outstanding share options (the "Share Options") granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the total number of shares in issue of the Company from time to time.

The maximum number of shares which may be issued upon exercise of all Share Options to be granted under the Share Option Scheme and any other schemes of the Group shall not, in aggregate, exceed 10% of the total number of shares in issue of the Company as at the date of listing of the Company on the Main Board of the Stock Exchange (the "Listing Date"). The maximum number of shares issued and to be issued upon exercise of the Share Options granted to any eligible participant in the Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue from time to time. Any further grant of Share Options in excess of this limit is subject to shareholders' approval in a general meeting.

Share Options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their close associates, are subject to approval in advance by the independent non-executive Directors (excluding the independent non-executive Directors who or whose close associates are the grantees of a Share Option). In addition, any grant of Share Options to a substantial shareholder or an independent non-executive Director of the Company, or to any of their close associates, would result in the securities issued and to be issued upon exercise of all Share Options already granted and to be granted (including Share Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: a) representing in aggregate over 0.1% of the relevant class of securities in issue; and b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million, such further grant of Share Options must be approved by shareholders of the Company (voting by way of a poll).

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

SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

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

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

During the year ended 31 December 2014, no Share Option was granted to any grantees (the "Grantees") under the Share Option Scheme.

Particulars and movements of Share Options under the Share Option Scheme during the year ended 31 December 2014 by category of Grantees were as follows:

			Number of Share Options			
Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share	Outstanding as at 1 January 2014	Exercised during the year ended 31 December 2014	Lapsed during the year ended 31 December 2014	Outstanding as at 31 December 2014
Directors						
Dr. Ngai Wai Fung	16/12/2011	HK$12.12	100,000	–	–	100,000
Mr. Tan Wee Seng	16/12/2011	HK$12.12	100,000	–	–	100,000
Prof. Xiao Baichun	16/12/2011	HK$12.12	100,000	–	–	100,000
Sub-total			300,000	–	–	300,000
Other employees	09/06/2011	HK$15.312	704,918	(108,302)[1]	(64,661)	531,955
	29/11/2011	HK$11.52	747,795	(120,738)[2]	(83,463)	543,594
	01/06/2012	HK$19.64	582,579	(60,197)[3]	(76,852)	445,530
	07/12/2012	HK$24.70	1,183,361	(104,979)[4]	(160,641)	917,741
Total			3,518,653	(394,216)	(385,617)	2,738,820

Note 1: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$47.34.

Note 2: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$42.86.

Note 3: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$46.94.

Note 4: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$48.59.

SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

All Share Options granted since the adoption of the Share Option Scheme till 31 December 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

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

No Share Options granted under the Share Option Scheme were cancelled during the year ended 31 December 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:

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

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

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

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

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

SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

A total of 11,150,249 shares were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HK$1.00 paid by each grantee. During the year ended 31 December 2014, 15 employees were no longer eligible for Pre-IPO Share Options due to such employees' failure to meet performance target or retirement, and as a result, a total of 215,615 Pre-IPO Share Options became lapsed accordingly. Particulars and movements of Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the year ended 31 December 2014 by category of grantees are set out below:

	Number of Pre-IPO Share Options			
Category of grantees	**Outstanding as at 1 January 2014**	**Exercised during the year ended 31 December 2014**	**Lapsed during the year ended 31 December 2014**	**Outstanding as at 31 December 2014**
Directors				
Mr. Luo Fei	621,239	–	–	621,239
Ms. Kong Qingjuan	381,558	–	–	381,558
Sub-total	1,002,797	–	–	1,002,797
Others				
Senior management members	2,655,665	(748,343)[(1)]	–	1,907,322
Other employees	5,420,261	(1,285,890)[(2)]	(215,615)	3,918,756
Business partners	100,000	–	–	100,000
Sub-total	8,175,926	(2,034,233)	(215,615)	5,926,078
Total	9,178,723	(2,034,233)	(215,615)	6,928,875

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$50.80.

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$47.96.

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were cancelled during the year ended 31 December 2014.

SHARE AWARD SCHEMES

Share Award Scheme

A 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 share capital of the Company as at the Adoption Date.

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

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

During the year ended 31 December 2014, neither the Board 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, nor the trustee of the Share Award Scheme purchased any shares of the Company on the Stock Exchange.

On 10 October 2014, the Board resolved to grant a total of 662,427 Awarded Shares to 198 employees by way of allocation of shares of the Company previously awarded under the Share Award Scheme which did not vest and were lapsed and which were then held by the trustee pursuant to the Share Award Scheme.

SHARE AWARD SCHEMES (Continued)

Share Award Scheme (Continued)

Summary of particulars of the shares awarded under the Share Award Scheme (the "Awarded Shares") during the year ended 31 December 2014 is as follows:

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 31 December 2014	Number of Awarded Shares: Forfeited/ Lapsed as at 31 December 2014	Number of Awarded Shares: Outstanding (held by the trustee for the grantees) as at 31 December 2014
25 March 2013	1,239,887 *(Note 1)*	0.206%	25 March 2014	(1,086,666)	(153,221)	–
21 October 2013	817,394 *(Note 2)*	0.136%	30 November 2014	–	(817,394)	–
10 October 2014	662,427 *(Note 3)*	0.110%	30 October 2015	–	(16,827)	645,600
Total	2,719,708	0.452%		(1,086,666)	(987,442)	645,600

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.

Note 3: Among these Awarded Shares granted, 11,600 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 6,000 Awarded Shares were granted to Ms. Kong Qingjuan, the Chief Operating Officer and an executive Director.

Further details in relation to the Share Award Scheme are set out in note 36 to the financial statements of this Annual Report.

SHARE AWARD SCHEMES (Continued)

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.

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.

SHARE AWARD SCHEMES (Continued)

2013 Share Award Scheme (Continued)

The Board shall not make any further award which will result in the number of shares awarded by the Board under the 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.

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 the adoption date of the same.

Details of the 2013 Share Award Scheme are set out in the Company's announcement dated 29 November 2013.

On 22 April 2014, the Board 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.

On 10 October 2014, the Board resolved to grant awards comprising a total of 2,103,316 awarded shares (the "2014 Batch 2 Awarded Shares") to 1,018 Selected Employees by way of (i) allocation of the 1,265,644 Returned Shares, which were the 2014 Batch 1 Awarded Shares that did not vest due to the relevant Selected Employees failed to meet their performance targets specified in the grant letters pursuant to the 2013 Share Award Scheme; and (ii) allotment of 837,672 new shares of the Company 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 8 May 2014. On 20 October 2014, the Stock Exchange granted the listing of, and permission to deal in the 2014 Batch 2 Awarded Shares.

SHARE AWARD SCHEMES (Continued)

2013 Share Award Scheme (Continued)

Summary of particulars of the 2014 Batch 1 Awarded Shares and 2014 Batch 2 Awarded Shares during the year ended 31 December 2014 are set out below:

				Number of Awarded Shares		
Date of grant	Number of awarded shares granted under the 2013 Share Award Scheme	Approximate percentage of the Company's share capital as at the adoption date of the 2013 Share Award Scheme	Vesting date	Vested as at 31 December 2014	Forfeited/ Lapsed as at 31 December 2014	Outstanding (held by the trustee for the grantees) as at 31 December 2014
22 April 2014	1,265,644	0.210%	23 December 2014	–	(1,265,644)	–
10 October 2014	2,103,316	0.349%	30 November 2015	–	(105,031)	1,998,285
Total	3,368,960	0.559%		–	(1,370,675)	1,998,285

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 31 December 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:

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	74.156%
Flying Company Limited *(Note 1)*	Interest in a controlled corporation	Long position	450,000,000	74.156%
Sailing Group Limited *(Note 1)*	Interest in a controlled corporation	Long position	450,000,000	74.156%
Coliving Limited *(Note 1)*	Interest in a controlled corporation	Long position	450,000,000	74.156%
UBS Trustees (BVI) Limited *(Note 1)*	Trustee	Long position	450,000,000	74.156%

Note 1: As at 31 December 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 31 December 2014, the total number of the issued shares of the Company was 606,825,765.

Save as mentioned above, as at 31 December 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2014.

CONTRACTS OF SIGNIFICANCE

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

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders of the Company has confirmed to the Company of his/its compliance with the non-compete undertakings provided to the Company under the Deed of Non-Competition (as defined in the prospectus of the Company dated 3 December 2010 (the "Prospectus")). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders during the year ended 31 December 2014.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2014 and up to the date of the Annual Report, none of the Directors of the Company had any direct or indirect interest in a business which competed or might compete with the business of the Group as required to be disclosed under Rule 8.10 of the Listing Rules.

CONNECTED TRANSACTIONS

During the year ended 31 December 2014, below transactions of the Group constituted connected transactions (including continuing connected transactions) under Chapter 14A of the Listing Rules.

Renewed Framework Purchase Agreement

Guangzhou Biohope Co., Ltd.* (廣州市百好博有限公司, "Guangzhou Biohope") is owned as to 52.8% by Mr. Luo Fei, 27.2% by Mr. Luo Yun and 20% by Mr. Chen Fufang, all of whom are Directors and among whom Mr. Luo Fei and Mr. Luo Yun are brothers. Mr. Luo Fei is an executive Director and the Chief Executive Officer of the Company and hence a connected person of the Company. As Mr. Luo Fei can exercise more than 30% of the voting power at general meetings of Guangzhou Biohope, Guangzhou Biohope is an associate of Mr. Luo Fei and therefore a connected person of the Company under Rule 14A.07(4) and Rule 14A.12(1) of the Listing Rules.

CONNECTED TRANSACTIONS (Continued)

Renewed Framework Purchase Agreement (Continued)

On 27 December 2013, BMcare Baby Products Inc. (Guangzhou)* (廣州葆艾嬰幼兒護理用品有限公司, "BMcare Guangzhou"), the Company's directly wholly-owned subsidiary, renewed the existing framework purchase agreement (the "Renewed Framework Purchase Agreement") with Guangzhou Biohope in relation to the purchase of certain raw materials from Guangzhou Biohope for the production of a new series of baby care products by BMcare Guangzhou. The term of the Renewed Framework Purchase Agreement is for a period commencing from 1 January 2014 to 31 December 2015. The annual caps for the transactions contemplated under the Renewed Framework Purchase Agreement are RMB10,000,000 and RMB15,000,000 for the years ended 31 December 2014 and 2015, respectively. As certain of the applicable percentage ratios (other than the profits ratio) as defined in Chapter 14 of the Listing Rules in respect of such annual caps are more than 0.1% but all of the relevant applicable percentage ratios are less than 5%, and that the transactions contemplated under the Renewed Framework Purchase Agreement are on normal commercial terms or better, these renewed continuing connected transactions are subject to the reporting, annual review and announcement requirements but are exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules. Further details in relation to the Renewed Framework Purchase Agreement are set out in the Company's announcement dated 27 December 2013.

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement

Background

The Group generally sells its products to regional distributors and such distributors further distribute the products through different types of retail sales channels, including but not limited to specialty stores owned and operated by third parties.

In contemplation of developing a uniform e-commerce platform to be utilized by the specialty stores for the sale of the Group's products, on 8 November 2013, Mama100 E-commerce was established in the PRC with limited liability with a registered capital of RMB10,000,000, and is owned as to 57.7% by Mr. Luo Fei, 26% by Mr. Wu Xiong, 11.9% by Mr. Chen Fufang and 4.4% by Ms. Kong Qingjuan (the "Mama100 Shareholders"). Under the relevant rules and regulations in the PRC, foreign investors are not allowed to hold more than 50% of the equity interest of a company providing value-added telecommunications services including e-commerce. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience and a proven track record in operating value-added telecommunications businesses. As a result of such restrictions, the Company or its wholly-owned subsidiaries in the PRC is not allowed to hold the entire equity interest of any company established under the laws of the PRC which is engaged in e-commerce in the PRC or carry out such e-commerce activities directly under the relevant PRC laws and regulations. Mama100 E-commerce was established for the purpose of enabling the Group to operate its e-commerce platform and it has also obtained the Internet Content Provider License (增值電信業務許可證).

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

Background *(Continued)*

Due to the abovementioned legal restrictions, on 27 June 2014, the Group entered into legal arrangement with Mama100 E-commerce through a series of contracts, namely the exclusive management and consultancy service agreement (the "Exclusive Management and Consultancy Service Agreement"), the equity interests pledge agreement (the "Equity Interests Pledge Agreement"), the exclusive call option agreement (the "Exclusive Call Option Agreement"), the business management agreement (the "Business Management Agreement")(including the power of attorneys (the "Power of Attorneys") and undertakings (the "Undertakings")), the trademark license agreement (the "Trademark License Agreement"), the trademark application license agreement (the "Trademark Application License Agreement") and the associated agreements (collectively, the "Structure Contracts"), in order to conduct the e-commerce business as contemplated under the Structure Contracts through Mama100 E-commerce.

The business model of Mama100 E-commerce under the Structure Contracts is as below:

(i) Mama100 E-commerce maintains and operates online platforms through (i) its self-owned website and mobile application, and (ii) online stores established on third parties' platforms, including WeChat (微信), Tmall (天貓) and Jing Dong (京東). These online platforms are to be utilized for online sales of the Group's products. Mama100 E-commerce itself does not own any of the Group's products, the products are owned by the specialty stores through purchases from the distributors of the Group.

(ii) Once a customer places an order of products with any of Mama100 E-commerce's online platforms and makes respective payment to Mama100 E-commerce (mainly through online payment methods such Alipay (支付寶), online bank and etc), Mama100 E-commerce will notify and refer the customer order to the specialty store located nearest to that customer, and such specialty store will arrange delivery of the ordered products to the said customer.

(iii) Mama100 E-commerce will then make weekly or daily (depending on the requirement of the respective online platform) settlement with the relevant specialty stores by (i) forwarding the respective payments of ordered products it received from the customers to the relevant specialty stores (as the relevant products delivered to the customer was originally owned by the relevant specialty store, instead of Mama100 E-commerce), and (ii) at the same time charging such specialty stores for service fees in respect of the referral of product orders and online services provided.

(the above business model is referred to as "O2O Business")

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

***Background** (Continued)*

The Company is of the view that the Group will benefit from the O2O Business of Mama100 E-commerce in the following aspects:

(i) the profit to be generated by Mama100 E-commerce under the O2O Business will be consolidated into the Group as a result of the Structure Contracts; and

(ii) the O2O Business will provide an additional sales channel and platform to the specialty stores which could enhance the sales efficiency of the Group's products by such specialty stores via internet at a lower cost, and will in turn substantially increase the sales volume of the Group's products to its distributors and accordingly, the Group's revenue and profit.

Pursuant to the Structure Contracts:

(i) the Group is able to exercise control over Mama100 E-commerce;

(ii) the Group has the right to govern the management of Mama100 E-commerce;

(iii) the Group has the right to deal with the assets of Mama100 E-commerce;

(iv) the Group would has the right to acquire the entire equity interest in Mama100 E-commerce (as and when the PRC relevant rules and regulations allow it to do so);

(v) the Company is able to consolidate the financial results of Mama100 E-commerce into the Group's results from the commencement date of the Structure Contracts; and

(vi) none of the shareholders of Mama100 E-commerce, namely, Mr. Luo Fei, Mr. Wu Xiong, Mr. Chen Fufang and Ms. Kong Qingjuan, will obtain or receive any financial or commercial benefits from his/her respective interest in Mama100 E-commerce under the Structure Contracts despite holding direct or indirect equity interests in Mama100 E-commerce.

In association with the Structure Contracts, the Group also entered into the promotion service agreement (the "Promotion Service Agreement") and domain name transfer agreement (the "Domain Name Transfer Agreement") with Mama100 E-commerce on 27 June 2014.

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

The Structure Contracts

The Company entered into each of the applicable Structure Contracts for a term commencing from 27 June 2014 and ending on 31 December 2016. Under the applicable Structure Contracts, the Company has the right to renew such Structure Contracts before the expiration of the relevant Structure Contracts unilaterally under the existing terms or at terms to be further agreed between the relevant parties.

Major provisions of the key Structure Contracts

(1) Exclusive Management and Consultancy Service Agreement

On 27 June 2014, Guangzhou Hapai, an indirect wholly-owned subsidiary of the Company, and Mama100 E-commerce entered into the Exclusive Management and Consultancy Service Agreement, pursuant to which Guangzhou Hapai has the exclusive right to provide management and consultancy services to Mama100 E-commerce. Guangzhou Hapai is also entitled to deal with the assets of Mama100 E-commerce. Such services include but are not limited to technical service, network support, business consulting and other services as required by Mama100 E-commerce and allowed under the PRC law. The Exclusive Management and Consultancy Service Agreement also entitles Guangzhou Hapai to charge Mama100 E-commerce quarterly for service fees at a range of 90% to 100% of the total amount of net profit of Mama100 E-commerce for the corresponding period in accordance with the volume of the services provided because it is commercially agreed by both parties that the net profit of Mama100 E-commerce is generated as a result of the management and consultancy services provided by Guangzhou Hapai, and therefore not less than 90% of the total amount of net profit of Mama100 E-commerce should be paid to Guangzhou Hapai. The reason for leaving a maximum of 10% of the total amount of net profit in the reserve of Mama100 E-commerce is to meet the general working capital of Mama100 E-commerce for daily operation.

(2) Equity Interests Pledge Agreement

On 27 June 2014, Guangzhou Hapai and the Mama100 Shareholders entered into the Equity Interests Pledge Agreement, pursuant to which the Mama100 Shareholders agreed to pledge the entire equity interests in Mama100 E-commerce to Guangzhou Hapai as security for the performance of the obligations under the relevant Structure Contracts.

(3) Exclusive Call Option Agreement

On 27 June 2014, Guangzhou Hapai, Mama100 E-commerce and Mama100 Shareholders entered into the Exclusive Call Option Agreement pursuant to which Guangzhou Hapai is irrevocably entitled to, as and when permitted by applicable PRC laws and regulations, acquire the entire equity interests in Mama100 E-commerce held by the Mama100 Shareholders 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.

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

The Structure Contracts *(Continued)*

Major provisions of the key Structure Contracts (Continued)

(4) Business Management Agreement

On 27 June 2014, Guangzhou Hapai, Mama100 E-commerce and Mama100 Shareholders entered into the Business Management Agreement pursuant to which, among other things:

(i) the Mama100 Shareholders will procure Mama100 E-commerce not to enter into any transaction which may materially affect its assets, business operation, human resources, right and obligations, unless upon prior written consent from Guangzhou Hapai or any third party designated by Guangzhou Hapai;

(ii) Mama100 E-commerce and Mama100 Shareholders agree to strictly implement relevant proposals from Guangzhou Hapai from time to time in relation to Mama100 E-commerce's recruitment and dismissal of employee, business management, financial management and so on; and

(iii) each of the Mama100 Shareholders agrees to, upon receiving any dividend or any other earnings or income from Mama100 E-commerce as its shareholder, immediately and unconditionally pay or transfer at nil consideration of all such earnings or income to Guangzhou Hapai.

(5) Power of Attorneys and Undertakings

Pursuant to the above Business Management Agreement, on 27 June 2014, each of the Mama100 Shareholders executed a Power of Attorney pursuant to which he/she irrevocably authorized Guangzhou Hapai to, among other things:

(i) attend shareholder meetings of Mama100 E-commerce on his/her behalf;

(ii) exercise all his/her rights of shareholders and voting rights in Mama100 E-commerce, including but not limited to selling, transferring, pledging or otherwise dealing in all or any of the equity interests in Mama100 E-commerce; and

(iii) appoint the directors, general manager, chief financial officer and other management level personnel of Mama100 E-commerce.

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

The Structure Contracts *(Continued)*

Major provisions of the key Structure Contracts (Continued)

(5) Power of Attorneys and Undertakings (Continued)

In addition, on 27 June 2014, each of the Mama100 Shareholders executed an Undertaking pursuant to which he/she irrevocably undertakes, among other things, that:

(i) any successor to him/her shall hold the respective equity interest in Mama100 E-commerce subject to the conditions, requirements and obligations under the Undertaking and the Structure Contracts;

(ii) his/her respective equity interest in Mama100 E-commerce does not form part of the community property, and his/her decisions in relation to Mama100 E-commerce shall not be affected by his/her spouse;

(iii) he/she will neither, directly or indirectly (either on his/her own or through any other individual or legal entity), participate or be engaged in any business which is or may be in competition with the business of Mama100 E-commerce or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any conflict of interest between himself/herself and Guangzhou Hapai;

(iv) in the event that he/she receives any asset in relation to the liquidation of Mama100 E-commerce, he/she agrees to transfer at nil consideration or at the lowest consideration as permitted by the then applicable laws and regulations to Guangzhou Hapai such asset; and

(v) in the event that he/she receives any amount from Guangzhou Hapai or any third party in relation to the exercise of the call option under the Exclusive Call Option Agreement, he/she agrees to unconditionally return all such amount to Guangzhou Hapai or any third party designated by Guangzhou Hapai.

On 27 June 2014, each of the spouses of the Mama100 Shareholders also executed an Undertaking pursuant to which he/she irrevocably undertakes, among other things, that:

(i) the respective equity interest in Mama100 E-commerce held by his/her spouse does not form part of the community property; and

(ii) any income arising in relation to such equity interest in Mama100 E-commerce shall be solely owned and disposed by his/her spouse and he/she will neither claim any rights to such income, nor participate in the management of the business operation of Mama100 E-commerce.

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

***The Structure Contracts** (Continued)*

Major provisions of the key Structure Contracts (Continued)

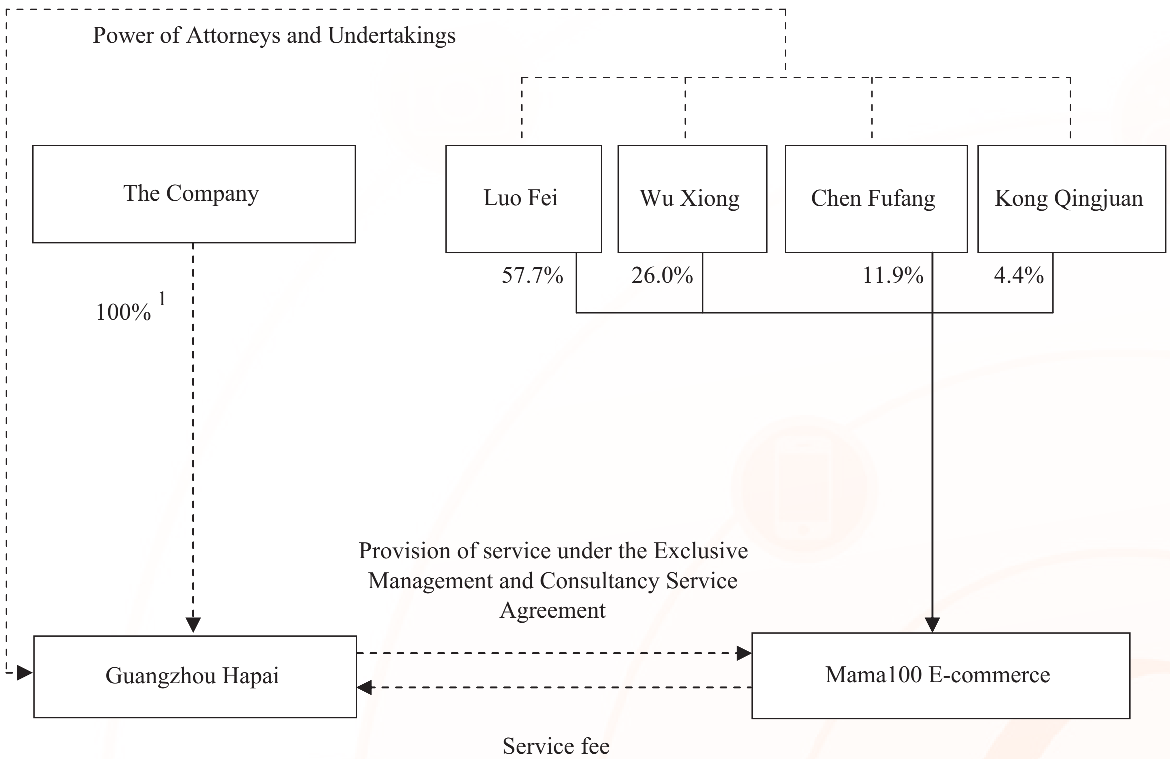
(6) Trademark License Agreement and Trademark Application License Agreement (collectively, the "License Agreements")

On 27 June 2014, Biostime Investment and Mama100 E-commerce entered into the Trademark License Agreement and the Trademark Application License Agreement, pursuant to which Biostime Investment will license certain registered trademarks and trademarks under registration process to Mama100 E-commerce.

The aggregated consideration under the License Agreements was set at the range of 2% to 10% of the revenue of Mama100 E-commerce for the corresponding period, with the exact amount to be determined by both parties according to the actual utilization frequency of such registered trademarks and trademarks under registration process and shall be settled on annual basis.

Corporate Structure

The following chart illustrates the relationship between the Company, Guangzhou Hapai, Mama100 E-commerce and its shareholders upon the Structure Contracts coming into effect.



Note:

1. Guangzhou Hapai is indirect wholly-owned by the Company.

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

The Structure Contracts *(Continued)*

Dispute resolution

Pursuant to the Structure Contracts, any dispute arising from the validity, interpretation and performance of the Structure Contracts between the parties thereto should first be resolved through negotiation, failing which any party may submit the said dispute to the Guangzhou Arbitration Commission with a view to resolving the dispute through arbitration in accordance with the arbitration rules thereof. The arbitral tribunal may award remedies over the shares or land assets of Mama100 E-commerce, injunctive relief (such as stipulating certain conducts of business or compelling transfer of assets) or order the winding up of Mama100 E-commerce (the "Arbitral Award Provisions").

The Structure Contracts also provide that pending formation of the arbitral tribunal or in appropriate cases, the courts of Hong Kong, the Company's place of incorporation (the Cayman Islands), Mama100 E-commerce's place of establishment (the PRC), the jurisdiction where the principal assets of the Company and Mama100 E-commerce are located (the PRC) have the power to grant interim remedies in support of the arbitration (the "Interim Remedies Provisions").

However, as advised by the legal advisor of the Company as to the laws of the PRC, King & Wood Mallesons, according to the PRC laws and regulations, the arbitral tribunal normally would not grant such kind of remedies or injunctive relief or winding up order of such PRC operational entities as Mama100 E-commerce under the PRC laws and regulations. For instance, the arbitral tribunal has no authority to grant such injunctive relief, nor will it be able to order the winding up of the PRC operational entities pursuant to existing PRC laws and regulations. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and Cayman Islands may not be recognizable or enforceable in China.

Risks involved in the Structure Contracts

As the primary beneficiary of Mama100 E-commerce, the Group is exposed to the business risks and financial risks faced by Mama100 E-commerce. While the Group will pay service fees to Mama100 E-commerce for its services under the Promotion Service Agreement of at least RMB120,000 per month, there is no assurance that Mama100 E-commerce will generate any profit which can be paid to the Group through the Exclusive Management and Consultancy Service Agreement and Business Management Agreement. Any profit or loss of Mama100 E-commerce (net of intra-group transactions) will be reflected in the consolidated financial results of the Group.

The exercise of the Exclusive Call Option Agreement is subject to applicable laws and regulations of the PRC. There is no assurance that the acquisition of the entire equity interests in Mama100 E-commerce held by the Mama100 Shareholders under the Exclusive Call Option Agreement will be permitted in the future, or whether such acquisition will incur any costs and expenses to the Group in addition to the consideration stipulated under the Exclusive Call Option Agreement. Due to these limitations, the transfer of ownership in Mama100 E-commerce pursuant to the exercise of the call option under the Exclusive Call Option Agreement may still subject to substantial costs.

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

The Structure Contracts *(Continued)*

Risks involved in the Structure Contracts (Continued)

The Group's PRC legal advisor, King & Wood Mallesons, is of the opinion that as at the date of the Annual Report, the execution, delivery and performance of the Structure Contracts by each of the parties thereto, is in compliance with (i) the provisions under the articles of association of such party and (ii) any applicable PRC laws and regulations. However, as advised by King & Wood Mallesons, the interpretation and implementation of the laws and regulations concerning the foreign investment in the PRC, and their application to and effect on the legality, binding effect and enforceability of contracts, are subject to the discretion of competent PRC legislative, administrative and judicial authorities. In particular, there is no assurance that PRC legislative, administrative or judicial authorities will not adopt a different or contrary interpretation or view against view of the Company and its legal advisor in respect of the legality, binding effect and enforceability of the Structure Contracts, and may determine that the contracts do not comply with applicable regulations.

Further, the Structure Contracts may not provide control over Mama100 E-commerce as effective as direct ownership; the registered shareholders of Mama100 E-commerce may have potential conflicts of interest with the Company; and the Structure Contracts may be subject to scrutiny of the tax authorities and additional tax may be imposed on the Group.

The Group believes that there are limited business insurance products available in the market, and to the best knowledge of the Directors, no insurance products specifically designed for protecting the risks relating to the Structure Contracts are available in the PRC market. Further, it is not compulsory for Mama100 E-commerce to maintain an insurance policy to cover risks relating to the Structure Contracts under the applicable PRC laws and regulations. Accordingly, the Group has not purchased any insurance to cover the above risks.

Internal control

The Company has put in place effective internal controls over Guangzhou Hapai and Mama100 E-commerce to safeguard its assets held through the Structure Contracts. As a wholly-owned subsidiary of the Company, Guangzhou Hapai is subject to all the internal control processes and procedures applicable to the Group.

The operations of Mama100 E-commerce are exclusively controlled by Guangzhou Hapai through the Structure Contracts and the Group has applied its internal control processes and procedures to Mama100 E-commerce. In particular, pursuant to the Structure Contracts, (i) Guangzhou Hapai has the right to appoint, and has appointed, the directors, general manager, chief financial officer and other senior management of Mama100 E-commerce and Guangzhou Hapai has the right to hire and terminate employees of Mama100 E-commerce; (ii) the shareholders of Mama100 E-commerce are not allowed to dispose of any assets without the prior written consent of Guangzhou Hapai.

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

Promotion Service Agreement

On 27 June 2014, Guangzhou Biostime, a direct wholly-owned subsidiary of the Company, and Mama100 E-commerce entered into the Promotion Service Agreement, pursuant to which Mama100 E-commerce will provide the following three types of promotional services to Guangzhou Biostime for its products at the following fee:

(i) promotional service (such as design and display of online advertising materials and advertisements) through Mama100 E-commerce's website at RMB120,000 per month;

(ii) promotional event planning and relevant promotion material designing at RMB3,000 per event; and

(iii) promotional service (such as online advertising and online marketing campaign) through other third party channels at the amount of costs incurred by Mama100 E-commerce plus profit at a rate of 5%.

For (i) promotional service through Mama100 E-commerce's website, the service to be provided is performed through Mama100 E-commerce's website. For (ii) promotional event planning and relevant promotion material designing and (iii) other promotional service through other third party channels, even though they are not performed through Mama100 E-commerce's website, they are associated with and ancillary to the service to be provided under type (i) and therefore both parties considered that it would be more practically and cost efficient to have Mama100 E-commerce providing all three types of promotional services to Guangzhou Biostime.

The above service fee shall be settled on monthly basis.

Domain Name Transfer Agreement

On 27 June 2014, Guangzhou Biostime and Mama100 E-commerce entered into the Domain Name Transfer Agreement, pursuant to which Guangzhou Biostime transferred certain domain names to Mama100 E-commerce at the consideration of RMB1 million, which had been settled in by end of 2014.

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

Annual caps

The proposed annual caps (the "Annual Caps") for the transactions (the "Transactions") under the Structure Contracts, the Promotion Service Agreement and the Domain Name Transfer Agreement for the three years ended/ending 31 December 2014, 2015 and 2016 are expected to be as follows:

	2014 (in RMB)	2015 (in RMB)	2016 (in RMB)
Structure Contracts	5,730,000	7,800,000	10,060,000
– Exclusive Management and Consultancy Service Agreement	5,220,000	6,900,000	8,520,000
– License Agreements	510,000	900,000	1,540,000
Promotion Service Agreement	19,300,000	32,910,000	62,210,000
Domain Name Transfer Agreement *(note 1)*	1,000,000	–	–
Total (on an aggregated basis)	26,030,000	40,710,000	72,270,000

Note:

1. The transaction contemplated under the Domain Name Transfer Agreement is a one-off transaction, therefore, for the purpose of calculation of aggregated Annual Caps, the amount of the Annual Cap for such transaction is equivalent to the total amount of consideration as set out in the Domain Name Transfer Agreement.

Reasons and benefits for the Transactions

Mama100 E-commerce will become the Company's subsidiary and the Group will obtain financial and operational control of Mama100 E-commerce upon the execution of the Structure Contracts. Further, upon the execution of the Structure Contracts, the Promotion Service Agreement and the Domain Name Transfer Agreement, it would allow the Group to enhance the sales efficiency of the Group's products by specialty stores via the Internet at a low cost and accordingly substantially increase the sales volume of the Group's products to its distributors.

Through co-operation with Mama100 E-commerce pursuant to the terms of the Structure Contracts, the Group will be able to explore the global e-commerce markets and make its distribution network more effective, thus strengthening the Group's market position in the premium pediatric nutritional and baby care product industry.

CONNECTED TRANSACTIONS (Continued)

Structure Contracts, Promotion Service Agreement and Domain Name Transfer Agreement (Continued)

Listing Rules implications

Mama100 E-commerce is owned as to 57.7% by Mr. Luo Fei, 26% by Mr. Wu Xiong, 11.9% by Mr. Chen Fufang and 4.4% by Ms. Kong Qingjuan. Each of Mr. Luo Fei and Ms. Kong Qingjuan is an executive Director and each of Mr. Wu Xiong and Mr. Chen Fufang is a non-executive Director. In addition, Mr. Luo Fei is also the Chief Executive Officer of the Company. Mama100 E-commerce is therefore an associate of Mr. Luo Fei and hence a connected person of the Company for the purpose of the Listing Rules. Accordingly, (i) the transactions contemplated under the Domain Name Transfer Agreement constitute connected transactions of the Company and (ii) each of the other Transactions constitutes continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Having considered that each of the Transactions has been entered into by the Group with the same party, namely, Mama100 E-commerce and/or the Mama100 Shareholders, and are for the same purpose of enabling the Group to conduct e-commerce activities for the Group's products, the Directors consider that each of the Transactions shall be aggregated pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) in relation to the largest Annual Caps for the Transactions in aggregate is more than 0.1% but less than 5%, each of the Transactions fall within Rule 14A.76(2) of the Listing Rules and is subject to the reporting, announcement and annual review requirements but exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Annual review of the continuing connected transactions

The independent non-executive Directors of the Company have reviewed all the above-mentioned continuing connected transactions and confirmed that during the year ended 31 December 2014, these transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of all the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

CONNECTED TRANSACTIONS (Continued)

Annual review of the continuing connected transactions (Continued)

Details of the consideration paid in respect of all the continuing connected transactions during the year ended 31 December 2014 are set out as follows:

	Annual Caps for the year (in RMB)	Consideration paid during the year (in RMB)
Renewed Framework Purchase Agreement	10,000,000	6,376,888
Structure Contracts		
– Exclusive Management and Consultancy Service Agreement	5,220,000	–
– License Agreements	510,000	–
Promotion Service Agreement	19,300,000	5,866,185
Domain Name Transfer Agreement	1,000,000	1,000,000

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2014 and the annual results for the year ended 31 December 2014, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 and the annual report for the year ended 31 December 2014, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the Company Code and the Model Code during the year ended 31 December 2014.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this Annual Report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended 31 December 2014.

EVENTS AFTER THE END OF THE REPORTING PERIOD

The details of events after the end of the reporting period of the Group are set out in note 48 to the financial statements.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 23 to 40 of the Annual Report.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2014.

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

AUDITORS

The consolidated financial statements for the year ended 31 December 2014 have been audited by Ernst & Young who shall retire at the 2015 AGM. A resolution will be proposed at the 2015 AGM to re-appoint Ernst & Young as external auditors of the Company.

On behalf of the Board
Luo Fei
Chairman

Hong Kong, 24 March 2015

INDEPENDENT AUDITORS' REPORT

EY 安永

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

We have audited the consolidated financial statements of Biostime International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 87 to 174, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

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

24 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	5	**4,731,563**	4,561,299
Cost of sales		**(1,804,632)**	(1,586,179)
Gross profit		**2,926,931**	2,975,120
Other income and gains	5	**128,065**	106,397
Selling and distribution costs		**(1,587,764)**	(1,513,046)
Administrative expenses		**(175,268)**	(177,313)
Other expenses		**(87,548)**	(55,573)
Finance costs	6	**(86,673)**	(10,589)
Share of profit of an associate	22	**592**	–
Fine on the violation of Anti-Monopoly Law	7	**–**	(162,900)
PROFIT BEFORE TAX	8	**1,118,335**	1,162,096
Income tax expense	10	**(311,549)**	(341,381)
PROFIT FOR THE YEAR		**806,786**	820,715
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(5,581)**	(823)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**801,205**	819,892
Profit attributable to owners of the parent	11	**806,786**	820,715
Total comprehensive income attributable to owners of the parent		**801,205**	819,892
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**1.34**	1.37
Diluted		**1.31**	1.34

Details of the dividends paid and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	478,032	326,187
Prepaid land lease payments	15	63,243	64,721
Goodwill	16	76,000	76,000
Intangible assets	17	104,110	109,889
Bonds receivable	18	130,302	98,092
Loans receivable	19	53,531	85,497
Deposits	20	15,741	14,755
Investment in an associate	22	40,592	–
Loan to an associate	22	40,000	–
Held-to-maturity investment	23	18,810	21,240
Time deposits	27	1,146,183	854,874
Deferred tax assets	32	128,896	123,892
Total non-current assets		2,295,440	1,775,147
CURRENT ASSETS			
Inventories	24	797,027	971,893
Trade and bills receivables	25	12,043	15,182
Prepayments, deposits and other receivables	26	137,467	110,935
Due from directors	42	–	2,000
Loans receivable	19	39,457	27,090
Derivative financial instrument	19	2,570	5,936
Restricted bank deposit	27	–	70,000
Cash and cash equivalents	27	3,347,157	1,662,836
Total current assets		4,335,721	2,865,872
CURRENT LIABILITIES			
Trade and bills payables	28	294,542	361,634
Other payables and accruals	29	737,494	719,838
Interest-bearing bank loans	30	–	750,613
Tax payable		235,588	212,725
Total current liabilities		1,267,624	2,044,810
NET CURRENT ASSETS		3,068,097	821,062
TOTAL ASSETS LESS CURRENT LIABILITIES		5,363,537	2,596,209

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,363,537**	2,596,209
NON-CURRENT LIABILITIES			
Convertible bonds	*31*	**2,410,526**	–
Deferred tax liabilities	*32*	**35,924**	80,616
Total non-current liabilities		**2,446,450**	80,616
Net assets		**2,917,087**	2,515,593
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*34*	**5,197**	5,161
Equity component of convertible bonds	*31*	**66,978**	–
Reserves	*37(a)*	**2,647,968**	2,143,222
Proposed dividends	*12*	**196,944**	367,210
Total equity		**2,917,087**	2,515,593

Luo Fei
Director

Kong Qingjuan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

		Attributable to owners of the parent												
		Issued capital RMB'000	Share premium account RMB'000	Equity component of convertible bonds RMB'000	Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
At 1 January 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 year		–	–	–	–	–	–	–	–	–	–	820,715	–	820,715
Other comprehensive income for the year: Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	(823)	–	–	(823)
Total comprehensive income for the year		–	–	–	–	–	–	–	–	–	(823)	820,715	–	819,892
Transfer to statutory reserve funds		–	–	–	–	–	–	137,217	–	–	–	(137,217)	–	–
Equity-settled share option arrangements	35	–	–	–	–	–	–	–	10,075	–	–	–	–	10,075
Shares purchased for the Share Award Scheme	36	–	–	–	(64,093)	–	–	–	–	–	–	–	–	(64,093)
Equity-settled Share Award Scheme	36	–	–	–	27,431	–	–	–	–	12,250	–	9,296	–	48,977
Final 2012 dividend declared	12	–	1,036[#]	–	–	–	–	–	–	–	–	–	(189,933)	(188,897)
Special 2012 dividend declared	12	–	1,221[#]	–	–	–	–	–	–	–	–	–	(224,024)	(222,803)
Interim 2013 dividend	12	–	(119,437)	–	–	–	–	–	–	–	–	–	–	(119,437)
Interim 2013 special dividend	12	–	(90,773)	–	–	–	–	–	–	–	–	–	–	(90,773)
Proposed final 2013 dividend	12	–	–	–	–	–	–	–	–	–	–	(209,834)	209,834	–
Proposed special 2013 dividend	12	–	–	–	–	–	–	–	–	–	–	(157,376)	157,376	–
At 31 December 2013 and 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 year		–	–	–	–	–	–	–	–	–	–	806,786	–	806,786
Other comprehensive income for the year: Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	(5,581)	–	–	(5,581)
Total comprehensive income for the year		–	–	–	–	–	–	–	–	–	(5,581)	806,786	–	801,205
Transfer to statutory reserve funds		–	–	–	–	–	–	42,100	–	–	–	(42,100)	–	–
Equity-settled share option arrangements	35	19	15,325	–	–	–	–	–	(1,373)	–	–	–	–	13,971
Equity-settled Share Award Scheme	36	17	–	–	25,026	–	–	–	–	(24,373)	–	11,374	–	12,044
Issue of convertible bonds	31	–	–	66,978	–	–	–	–	–	–	–	–	–	66,978
Final 2013 dividend declared	12	–	–	–	–	–	–	–	–	–	–	(674)[#]	(209,834)	(210,508)
Special 2013 dividend declared	12	–	–	–	–	–	–	–	–	–	–	(505)[#]	(157,376)	(157,881)
Interim 2014 dividend	12	–	–	–	–	–	–	–	–	–	–	(124,315)	–	(124,315)
Proposed final 2014 dividend	12	–	–	–	–	–	–	–	–	–	–	(196,944)	196,944	–
At 31 December 2014		5,197	198,021*	66,978	(42,141)*	26,992*	95*	346,624*	25,418*	10,862*	(65,324)*	2,147,421*	196,944	2,917,087

* These reserve accounts comprise the consolidated reserves of RMB2,647,968,000 (2013: RMB2,143,222,000) in the consolidated statement of financial position.

[#] 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,118,335**	1,162,096
Adjustments for:			
Bank interest income	5	**(105,034)**	(82,932)
Interest income from loans and bonds receivable	5	**(8,085)**	(4,654)
Finance costs	6	**86,673**	10,589
Share of profit of an associate	22	**(592)**	–
Depreciation	8	**41,879**	25,665
Amortisation of intangible assets	8	**7,310**	480
Amortisation of prepaid land lease payments	8	**1,478**	419
Loss on disposal of items of property, plant and equipment	8	**97**	36
Write-down of inventories to net realisable value	8	**984**	3,707
Equity-settled share option expense	8	**4,488**	10,075
Equity-settled share award expense	8	**12,044**	48,977
		1,159,577	1,174,458
Decrease/(increase) in inventories		**173,882**	(452,333)
Decrease/(increase) in trade and bills receivables		**3,139**	(14,810)
Decrease/(increase) in prepayments, deposits and other receivables		**13,340**	(795)
(Decrease)/increase in trade and bills payables		**(67,093)**	98,516
Increase in other payables and accruals		**25,998**	205,226
Decrease/(increase) in amounts due from directors		**2,000**	(2,000)
Increase in rental deposits		**(289)**	(321)
Cash generated from operations		**1,310,554**	1,007,941
Corporate income tax paid		**(338,382)**	(347,468)
Net cash flows from operating activities		**972,172**	660,473

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
Net cash flows from operating activities		**972,172**	660,473
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(134,597)**	(135,700)
Proceeds from disposal of items of property, plant and equipment		**1,678**	122
Additions to intangible assets		**(13,824)**	(2,230)
Acquisition of a subsidiary	*38*	**–**	(350,000)
Held-to-maturity investment	*23*	**–**	(21,240)
Investment in bonds and loans receivable		**(48,847)**	(98,092)
Loan to an associate	*22*	**(40,000)**	–
Repayment of loans receivable		**31,050**	9,212
Interest received		**77,455**	59,540
Investment in an associate	*22*	**(40,000)**	–
(Increase)/decrease in time deposits with original maturity of three months or more when acquired	*27*	**(2,000)**	370,451
(Increase)/decrease in non-current time deposits	*27*	**(291,309)**	87,188
Net cash flows used in investing activities		**(460,394)**	(80,749)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible bonds		**2,414,370**	–
Exercise of share options	*35*	**9,483**	–
Purchase of shares held under the Share Award Scheme		**–**	(64,093)
New bank loans		**–**	645,186
Repayment of bank loans		**(750,613)**	(165,099)
Interest paid		**(8,690)**	(8,758)
Dividends paid to owners of the parent		**(492,703)**	(621,910)
Net cash flows from/(used in) financing activities		**1,171,847**	(214,674)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,683,625**	365,050
Cash and cash equivalents at beginning of year		**764,836**	400,615
Effect of foreign exchange rate changes, net		**(1,304)**	(829)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,447,157**	764,836
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*27*	**2,447,157**	764,836

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**8**	5
Loans receivable	19	**53,531**	85,497
Investments in subsidiaries	21	**3,790,750**	3,763,629
Deferred tax assets	32	**335**	334
Total non-current assets		**3,844,624**	3,849,465
CURRENT ASSETS			
Prepayments, deposits and other receivables	26	**31,393**	26,989
Due from subsidiaries	21	**1,456,603**	567,783
Loans to subsidiaries	21	**1,117,106**	–
Loans receivable	19	**39,457**	27,090
Derivative financial instrument	19	**2,570**	5,936
Cash and cash equivalents	27	**477,303**	174,253
Total current assets		**3,124,432**	802,051
CURRENT LIABILITIES			
Trade payables	28	**30,567**	39,511
Due to subsidiaries	21	**52,294**	26,878
Other payables and accruals	29	**13,561**	7,231
Tax payable		**1,398**	1,393
Interest-bearing bank loans	30	**–**	750,613
Total current liabilities		**97,820**	825,626
NET CURRENT ASSETS/(LIABILITIES)		**3,026,612**	(23,575)
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,871,236**	3,825,890
NON-CURRENT LIABILITIES			
Convertible bonds	31	**2,410,526**	–
Net assets		**4,460,710**	3,825,890
EQUITY			
Issued capital	34	**5,197**	5,161
Equity component of convertible bonds	31	**66,978**	–
Reserves	37(b)	**4,191,591**	3,453,519
Proposed dividends	12	**196,944**	367,210
Total equity		**4,460,710**	3,825,890

Luo Fei
Director

Kong Qingjuan
Director

1. CORPORATE INFORMATION

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

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

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

Pursuant to applicable laws and regulations of the People's Republic of China ("PRC"), 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 enables 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.

1. CORPORATE INFORMATION (Continued)

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 Agreements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standards ("IASs") and Interpretations promulgated by the International Accounting Standards Board (the "IASB"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance (Cap. 32).

The financial statements have been prepared under the historical cost convention except for a derivative financial instrument, which has been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the statement of profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to the statement of profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised)	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets And Financial Liabilities*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*
Amendments to IFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendments to IFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendments to IFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendments to IFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective IFRSs*

1 Effective from 1 July 2014

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

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

IFRS 9	*Financial Instruments*[4]
Amendments to IFRS 10 and IAS 28 (Revised)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 10, IFRS 12 and IAS 28 (Revised)	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 1	*Disclosure Initiative*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (Continued)

Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IAS 27 (Revised)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	*Amendments to a number of IFRSs*[1]
Annual Improvements 2011-2013 Cycle	*Amendments to a number of IFRSs*[1]
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to IFRS 10 and IAS 28 (Revised) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (Revised) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (Continued)

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle sets out amendments to a number of IFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

IFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

The Annual Improvements to IFRSs 2012-2014 Cycle sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2016. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

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 profit or loss 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 assets 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 is treated as non-current assets and is stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the statement of profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposal of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Plant and machinery	9% to 18%
Furniture, fixtures and office equipment	18% to 30%
Motor vehicles	18%
Leasehold improvements	Over the shorter of the lease terms and 20%

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

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

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

Intangible assets (other than goodwill)

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

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

License

License is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 18 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

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

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

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, or as held-to-maturity investment, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

Held-to-maturity investments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank loans.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

Loans and borrowings

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

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

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

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Customer loyalty program

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

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

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

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

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

Share-based payment

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. Further details of fair values are given in notes 35 and 36 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment (Continued)

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

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

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

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

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

The dilutive effect of outstanding options and shares held for the share award schemes are reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes

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

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

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements

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

Tax provisions

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

Deferred tax assets

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

Deferred tax liabilities

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

If those undistributed earnings of the subsidiaries in Mainland China are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred income tax liability would have been increased by the same amount of approximately RMB55,715,000.

Estimation uncertainties

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainties (Continued)

Provision for obsolete inventories

Management reviews the aged analysis of inventories of the Group at each reporting date, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale or that will be sold below cost. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2014, the carrying amounts of inventories were approximately RMB797,027,000 (2013: RMB971,893,000) after netting off the allowance for inventories of approximately RMB5,953,000 (2013: RMB4,969,000).

Deferred income

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

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. 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.

4. OPERATING SEGMENT INFORMATION (Continued)

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

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

During the years ended 31 December 2014 and 2013, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Operating segment information for the year ended 31 December 2014:

	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*
Segment revenue:						
Sales to external customers	3,981,575	425,094	151,420	173,474	–	4,731,563
Segment results	2,466,913	303,707	74,345	81,966	–	2,926,931
Reconciliations:						
Interest income						113,119
Other income and unallocated gains						14,946
Corporate and other unallocated expenses						(1,849,988)
Finance costs						(86,673)
Profit before tax						1,118,335
Other segment information:						
Depreciation and amortisation	2,679	1,540	623	85	45,740	50,667
Write-down/(back) of inventories to net realisable value	781	210	(93)	86	–	984
Capital expenditure*	44,306	530	–	36	152,217	197,089

4. OPERATING SEGMENT INFORMATION (Continued)

Operating segment information for the year ended 31 December 2013:

	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
Segment revenue:						
Sales to external customers	3,752,116	458,164	198,778	152,241	–	4,561,299
Segment results	2,421,955	360,182	110,530	82,453	–	2,975,120
Reconciliations:						
Interest income						87,586
Other income and unallocated gains						18,811
Corporate and other unallocated expenses						(1,908,832)
Finance costs						(10,589)
Profit before tax						1,162,096
Other segment information:						
Depreciation and amortisation	823	2,039	893	160	22,649	26,564
Write-down/(back) of inventories to net realisable value	3,430	35	431	(189)	–	3,707
Capital expenditure*	294,945#	3,978	321	42	130,914	430,200#

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and intangible assets.

\# Capital expenditure of infant formulas segment has been restated as the purchase price allocation for the business combination has been completed in the year ended 31 December 2014. Further details of the acquisition are included in note 38 to the financial statements.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2014 *RMB'000*	2013 *RMB'000*
Revenue		
Sale of goods	4,731,563	4,561,299
Other income and gains		
Bank interest income	105,034	82,932
Interest income from loans and bonds receivable	8,085	4,654
Foreign exchange gain	–	14,021
Service income	1,239	1,193
Government subsidies	10,581	1,218
Others	3,126	2,379
	128,065	106,397

6. FINANCE COSTS

	2014 *RMB'000*	2013 *RMB'000*
Interest on bank loans	8,690	10,589
Interest on convertible bonds	77,983	–
	86,673	10,589

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 formulas for the year 2012.

8. PROFIT BEFORE TAX

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

	Notes	2014 RMB'000	2013 RMB'000
Cost of inventories sold		1,803,648	1,582,472
Depreciation	14	41,879	25,665
Amortisation of intangible assets	17	7,310	480
Amortisation of land lease payments	15	1,478	419
Auditors' remuneration		2,900	2,730
Research and development costs*		49,724	43,725
Minimum lease payments under operating leases in respect of buildings		55,255	38,371
Loss on disposal of items of property, plant and equipment		97	36
Employee benefit expenses (including directors' and chief executive's remuneration *(note 9(a))*:			
Wages and salaries		558,308	671,031
Pension scheme contributions (defined contribution schemes)		109,087	78,797
Staff welfare and other expenses		31,926	31,783
Equity-settled share option expense	35	4,488	10,075
Equity-settled share award expense	36	12,044	48,977
		715,853	840,663
Foreign exchange differences, net		8,187	(14,021)
Write-down of inventories to net realisable value#		984	3,707

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

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

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

(a) Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014 *RMB'000*	2013 *RMB'000*
Fees	1,780	1,780
Other emoluments:		
Salaries, allowances and benefits in kind	4,123	3,007
Performance-related bonuses	9,445	10,266
Equity-settled share option expense	288	457
Equity-settled share award expense	411	2,017
Pension scheme contributions	134	124
	14,401	15,871
	16,181	17,651

In prior years, share options were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 35 to the financial statements. Besides, share awards were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 36 to the financial statements. The fair value of these options and share awards, which has been recognised in the statement of profit or loss and other comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

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

The remuneration of each of the directors and the chief executive for the year ended 31 December 2014 is set out below:

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance –related bonuses *RMB'000*	Equity-settled share option expense *RMB'000*	Equity-settled share award expense *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
2014							
Executive directors:							
Mr. Luo Fei (Chief executive)	200	2,740	6,311	178	261	67	9,757
Ms. Kong Qingjuan	200	1,383	3,134	110	150	67	5,044
	400	4,123	9,445	288	411	134	14,801
Non-executive directors:							
Mr. Luo Yun	120	–	–	–	–	–	120
Mr. Wu Xiong	120	–	–	–	–	–	120
Mr. Chen Fufang	120	–	–	–	–	–	120
Dr. Zhang Wenhui	120	–	–	–	–	–	120
	480	–	–	–	–	–	480
Independent non-executive directors:							
Mr. Ngai Wai Fung	300	–	–	–	–	–	300
Mr. Tan Wee Seng	300	–	–	–	–	–	300
Professor Xiao Baichun	300	–	–	–	–	–	300
	900	–	–	–	–	–	900
	1,780	4,123	9,445	288	411	134	16,181

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

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

The remuneration of each of the directors and the chief executive for the year ended 31 December 2013 is set out below:

	Fees	Salaries, allowances and benefits in kind	Performance -related bonuses	Equity-settled share option expense	Equity-settled share award expense	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2013							
Executive directors:							
Mr. Luo Fei (Chief executive)	200	2,076	5,685	283	1,284	62	9,590
Ms. Kong Qingjuan	200	931	4,581	174	733	62	6,681
	400	3,007	10,266	457	2,017	124	16,271
Non-executive directors:							
Mr. Luo Yun	120	–	–	–	–	–	120
Mr. Wu Xiong	120	–	–	–	–	–	120
Mr. Chen Fufang	120	–	–	–	–	–	120
Dr. Zhang Wenhui	120	–	–	–	–	–	120
	480	–	–	–	–	–	480
Independent non-executive directors:							
Mr. Ngai Wai Fung	300	–	–	–	–	–	300
Mr. Tan Wee Seng	300	–	–	–	–	–	300
Professor Xiao Baichun	300	–	–	–	–	–	300
	900	–	–	–	–	–	900
	1,780	3,007	10,266	457	2,017	124	17,651

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

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

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

(b) Five highest paid employees

The five highest paid employees during the year included two (2013: two) directors, details of whose remuneration are set out in note 9(a) above. Details of the remuneration for the year of the remaining three (2013: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2014 *RMB'000*	2013 *RMB'000*
Salaries, allowances and benefits in kind	4,037	2,569
Performance-related bonuses	10,328	13,722
Equity-settled share option expense	257	409
Equity-settled share award expense	681	2,070
Pension scheme contributions	200	185
	15,503	18,955

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

	2014	2013
HK$5,000,001 to HK$5,500,000	1	–
HK$6,500,001 to HK$7,000,000	1	–
HK$7,000,001 to HK$7,500,000	–	1
HK$7,500,001 to HK$8,000,000	1	1
HK$9,000,001 to HK$9,500,000	–	1
	3	3

In prior years, share options were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. Besides, share awards were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are set out in note 36 to the financial statements. The fair value of these share options and share awards, which has been recognised in the consolidated statement of profit or loss and other comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

	2014 *RMB'000*	2013 *RMB'000*
Group:		
Current – Charge for the year		
Mainland China	355,130	395,819
Hong Kong	5,759	8,401
France	356	183
Deferred *(note 32)*	(49,696)	(63,022)
Total tax charge for the year	311,549	341,381

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% on the estimated assessable profits arising in Hong Kong during the year.

PRC enterprise income tax ("EIT")

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the rate of 25% on the taxable profits for the year, 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.

10. INCOME TAX (Continued)

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

	2014 *RMB'000*	2013 *RMB'000*
Group:		
Profit before tax	**1,118,335**	1,162,096
Tax at the applicable PRC enterprise income tax rate	**279,584**	290,524
Overseas tax differential	**2,357**	(3,902)
Expenses not deductible for tax	**18,280**	57,940
Income not subject to tax	**(5,194)**	(1,049)
Tax losses not recognised	**2,370**	5,313
Effect of withholding tax at 5% (2013: 5%) on the distributable profits of the Group's subsidiaries in Mainland China	**14,152**	30,569
Refund of withholding tax payment at a lower rate of 5%	**–**	(38,014)
Tax charge at the Group's effective rate	**311,549**	341,381

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a profit of RMB1,026,854,000 (2013: a profit of RMB479,710,000) which has been dealt with in the financial statements of the Company (note 37(b)).

12. DIVIDENDS

	2014 *RMB'000*	2013 *RMB'000*
Dividends on ordinary shares declared and paid during the year:		
Interim – HK$0.26 (2013: HK$0.25) per ordinary share	**124,315**	119,437
Interim special – nil (2013: HK$0.19) per ordinary share	**–**	90,773
Proposed final – HK$0.41 (2013: HK$0.44) per ordinary share	**196,944**	209,834
Proposed special – nil (2013: HK$0.33) per ordinary share	**–**	157,376
	321,259	577,420

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 602,326,189 (2013: 599,639,595) in issue during the year.

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

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

	2014 *RMB'000*	2013 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	806,786	820,715
	Number of Shares	
Shares		
Weighted average number of ordinary shares in issue	604,420,682	602,294,000
Weighted average number of shares held for the Share Award Schemes	(2,094,493)	(2,654,405)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	602,326,189	599,639,595
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	11,632,885	13,480,561
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	613,959,074	613,120,156

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2014	89,337	64,325	85,379	33,889	14,461	113,039	400,430
Additions	14	6,616	16,730	14,916	286	156,996	195,558
Disposals	–	(11)	(1,274)	(1,876)	–	–	(3,161)
Transfers	–	1,322	–	–	–	(1,322)	–
Exchange alignment	–	(83)	(21)	–	–	–	(104)
At 31 December 2014	89,351	72,169	100,814	46,929	14,747	268,713	592,723
Accumulated depreciation:							
At 1 January 2014	–	8,786	36,988	16,333	12,136	–	74,243
Depreciation provided during the year	4,960	7,177	21,051	6,875	1,816	–	41,879
Disposals	–	(5)	(1,117)	(264)	–	–	(1,386)
Exchange alignment	–	(33)	(12)	–	–	–	(45)
At 31 December 2014	4,960	15,925	56,910	22,944	13,952	–	114,691
Net carrying amount:							
At 31 December 2014	84,391	56,244	43,904	23,985	795	268,713	478,032

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improve-ments *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:							
At 1 January 2013	–	17,998	57,060	30,986	14,018	6,554	126,616
Additions	–	256	19,581	3,049	446	106,485	129,817
Acquisition of a subsidiary *(note 38)* (Restated)	89,337	46,076	9,700	–	–	–	145,113
Disposals	–	(14)	(964)	(146)	–	–	(1,124)
Exchange alignment	–	9	2	–	(3)	–	8
At 31 December 2013 (Restated)	89,337	64,325	85,379	33,889	14,461	113,039	400,430
Accumulated depreciation:							
At 1 January 2013	–	6,814	22,958	10,945	8,825	–	49,542
Depreciation provided during the year	–	1,980	14,852	5,519	3,314	–	25,665
Disposals	–	(12)	(823)	(131)	–	–	(966)
Exchange alignment	–	4	1	–	(3)	–	2
At 31 December 2013	–	8,786	36,988	16,333	12,136	–	74,243
Net carrying amount:							
At 31 December 2013 (Restated)	89,337	55,539	48,391	17,556	2,325	113,039	326,187

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvement RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Cost:			
At 1 January 2014	**86**	**–**	**86**
Additions	**–**	**6**	**6**
Exchange alignment	**–**	**–**	**–**
At 31 December 2014	**86**	**6**	**92**
Accumulated depreciation:			
At 1 January 2014	**81**	**–**	**81**
Depreciation provided during the year	**2**	**1**	**3**
Exchange alignment	**–**	**–**	**–**
At 31 December 2014	**83**	**1**	**84**
Net carrying amount:			
At 31 December 2014	**3**	**5**	**8**
Cost:			
At 1 January 2013	89	–	89
Additions	–	–	–
Exchange alignment	(3)	–	(3)
At 31 December 2013	86	–	86
Accumulated depreciation:			
At 1 January 2013	82	–	82
Depreciation provided during the year	2	–	2
Exchange alignment	(3)	–	(3)
At 31 December 2013	81	–	81
Net carrying amount:			
At 31 December 2013	5	–	5

15. PREPAID LAND LEASE PAYMENTS

	Group 2014 RMB'000	2013 RMB'000 (Restated)
Carrying amount at 1 January	**66,199**	20,566
Acquisition of a subsidiary *(note 38)*	**–**	46,052
Recognised during the year *(note 8)*	**(1,478)**	(419)
Carry amount at 31 December	**64,721**	66,199
Current portion included in prepayments, deposits and other receivables *(note 26)*	**(1,478)**	(1,478)
Non-current portion	**63,243**	64,721

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

16. GOODWILL

	Group 2014 RMB'000	2013 RMB'000 (Restated)
Cost:		
At 1 January	**76,000**	–
Acquisition of a subsidiary *(note 38)*	**–**	76,000
At 31 December	**76,000**	76,000
Accumulated impairment:		
At 1 January	**–**	–
Impairment provided during the year	**–**	–
At 31 December	**–**	–
Net carrying amount:		
At 31 December	**76,000**	76,000

16. GOODWILL (Continued)

Impairment testing of goodwill

Goodwill acquired through business combination is allocated to the infant formulas products cash-generating unit for impairment testing.

The recoverable amount of the infant formulas products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13.93%. The growth rate used to extrapolate the cash flows of the infant formulas products unit beyond the five-year period is 3%, taking into account of the industry growth rate, past experience and the medium or long term growth target of the infant formulas products cash-generating unit.

Assumptions were used in the value in use calculation of the infant formulas products cash-generating units for 31 December 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant unit.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for countries from where the raw materials are sourced.

The values assigned to the key assumptions on market development of infant formulas, discount rates and raw materials price inflation are consistent with external information sources.

17. INTANGIBLE ASSETS

	Computer software RMB'000	License RMB'000	Total RMB'000
Cost:			
At 1 January 2014	7,572	103,780	111,352
Additions during the year	1,531	–	1,531
At 31 December 2014	9,103	103,780	112,883
Accumulated amortisation:			
At 1 January 2014	1,463	–	1,463
Amortisation provided during the year	1,544	5,766	7,310
At 31 December 2014	3,007	5,766	8,773
Net carrying amount:			
At 31 December 2014	6,096	98,014	104,110
Cost:			
At 1 January 2013	2,134	–	2,134
Additions during the year	5,438	–	5,438
Acquisition of a subsidiary (Restated) *(note 38)*	–	103,780	103,780
At 31 December 2013	7,572	103,780	111,352
Accumulated amortisation:			
At 1 January 2013	983	–	983
Amortisation provided during the year	480	–	480
At 31 December 2013	1,463	–	1,463
Net carrying amount:			
At 31 December 2013 (Restated)	6,109	103,780	109,889

18. BONDS RECEIVABLE

	Group	
	2014	2013
	RMB'000	*RMB'000*
Bonds receivable	**130,302**	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 31 December 2014, the Group has subscribed for 17,477,075 bonds (2013: 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.

19. LOANS RECEIVABLE AND DERIVATIVE FINANCIAL INSTRUMENT

	Group and the Company	
	2014	2013
	RMB'000	*RMB'000*
Current portion of loans receivable	**39,457**	27,090
Loans receivable due after one year	**53,531**	85,497
Total loans receivable	**92,988**	112,587
Derivative financial instrument	**2,570**	5,936

	Effective interest rate	**Maturity**	**2014** ***RMB'000***	2013 *RMB'000*
Denominated in United States dollars (the "US$")	3.00%	By instalments before December 2018	**32,654**	33,863
Denominated in Danish krones (the "DKK")	DKK CIBOR rate +1%	By instalments before January 2017	**60,334**	78,724
Total loans receivable			**92,988**	112,587

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.

19. LOANS RECEIVABLE AND DERIVATIVE FINANCIAL INSTRUMENT (Continued)

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

The convertible loan is separated into two components: the debt element and the conversion option element. The Group has classified the debt element and the conversion option element as loan receivable and derivative financial instrument, respectively. The fair value of the conversion option at 31 December 2014 was RMB2,570,000 (31 December 2013: RMB5,936,000).

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

20. DEPOSITS

	Group	
	2014	2013
	RMB'000	*RMB'000*
Deposits paid for purchase of items of property, plant and equipment	**9,809**	9,112
Rental deposits	**5,932**	5,643
	15,741	14,755

21. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	RMB'000	*RMB'000*
Unlisted investments, at cost	**3,660,325**	3,648,075
Capital contribution in respect of employee share-based compensation	**130,425**	115,554
	3,790,750	3,763,629
Loans to subsidiaries	**1,117,106**	–

Loans to subsidiaries bear interest at the rates ranging from 3% to 3.5% per annum and repayable within one year.

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB1,456,603,000 (2013: RMB567,783,000) and RMB52,294,000 (2013: RMB26,878,000), respectively, are unsecured, interest-free and are payable on demand.

21. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou")*	PRC/Mainland China	US$73,010,000	100%	–	Research, development, processing of meat, fruit and vegetable powder and candy, sale of nutritional food, milk formulas and personal care products for infants and adults
Biostime (Guangzhou) Health Products Limited ("Biostime Health")*	PRC/Mainland China	US$34,100,000	100%	–	Research, development, manufacture and sale of health products and special nutritional foods
BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou")*	PRC/Mainland China	US$1,000,000	100%	–	Wholesale, retail and import and export of personal care products for infants
Biostime Pharma	France	EUR10,000	100%	–	Trading of infant food and nutritional products
Biostime (Guangzhou) Education Management Inc. ("Biostime Education")*	PRC/Mainland China	US$2,000,000	100%	–	Early childhood education advisory business and trading of related baby suppliers
Biostime International Investment Limited ("Biostime Investment")	BVI	US$814,999	100%	–	Overseas investments, financing and other business cooperation
Biostime Hong Kong Limited ("Biostime HK")	Hong Kong	HK$126,534,300	–	100%	Investment holding, international investment, trading and sales
Parenting Power International Holdings Limited ("Parenting Power Holdings")	Cayman Islands	HK$0.01	100%	–	Parenting education advisory business, trading and sales

21. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Parenting Power Investment Limited ("Parenting Power Investment")	BVI	USD1	–	100%	Overseas investments, financing and other business cooperation
Parenting Power Hong Kong Limited ("Parenting Power HK")	Hong Kong	HK$1	–	100%	Holding, investment, education management, trading and sales
Mama100 International Holdings Limited ("Mama100 Holdings")	Cayman Islands	HK$0.01	100%	–	Mama100 membership management, trading and sales
Mama100 International Investment Limited ("Mama100 Investment")	BVI	USD1	–	100%	Overseas investments, financing and other business cooperation
Mama100 Hong Kong Limited ("Mama100 HK")	Hong Kong	HK$1	–	100%	Investment holding, international investment, trading and sales
Adimil (Changsha) Nutrition Products Limited ("Changsha Adimil")	PRC/Mainland China	RMB211,165,206	–	100%	Manufacture of infant formula products
Guangzhou Hapai Information Technology Co., Ltd. ("Guangzhou Hapai")*	PRC/Mainland China	USD1,499,990	–	100%	Software and information technology services
Biostime Europe Holdings S.àr.l. ("Biostime Europe")	Luxembourg	EUR1	100%	–	Overseas investments, financing and other business cooperation
Biostime Luxebourg S.àr.l. ("Biostime Luxebourg")	Luxembourg	EUR1	–	100%	Overseas investments, financing and other business cooperation
Guangzhou Mama100 E-commerce Co., Limited ("Mama100 E-commence")**	PRC/Mainland China	RMB2,000,000	–	100%	Online sales, software and information technology services

21. INVESTMENTS IN SUBSIDIARIES (Continued)

* Registered as a wholly-foreign-owned enterprise under the laws of the PRC.

** 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.

In 2013, the Group acquired Changsha Adimil from a third party. Further details of this acquisition are included in note 38 to the financial statements.

22. INVESTMENT IN AN ASSOCIATE

	Group	
	2014	2013
	RMB'000	*RMB'000*
Unlisted shares, at cost	**40,000**	–
Share of net assets	**592**	–
	40,592	–
Loan to an associate	**40,000**	–

The loan to an associate is unsecured and bears interest at a rate of 3% per annum, and is repayable within two years.

The Group's trade payable balance with the associate is disclosed in note 28 to the financial statements.

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 represents equity shares held through a wholly-owned subsidiary of the Company.

22. INVESTMENT IN AN ASSOCIATE (Continued)

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

	2014 *RMB'000*	2013 *RMB'000*
Share of the associate's profit for the year	**592**	–
Share of the associate's comprehensive income	**592**	–
Carrying amount of the Group's investment in the associate	**40,592**	–

23. HELD-TO-MATURITY INVESTMENT

	Group	
	2014 *RMB'000*	2013 *RMB'000*
Investment in ISM	**18,810**	21,240

Pursuant to the Framework Agreement entered into with ISM on 1 July 2013, Biostime Pharma, a wholly-owned subsidiary of the Group, 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.

23. HELD-TO-MATURITY INVESTMENT (Continued)

The Subscription Shares, as shares of ISM held by a non-cooperative shareholder, will give rise to the payment of interest at a rate equal to the interest rate applicable to the shares subscribed by the cooperative shareholders of ISM plus 2% per annum. The interest due in respect of the Subscription Shares shall be paid by priority with respect to the interest payable to the cooperative shareholders of ISM.

Biostime Pharma undertakes to hold the Subscription Shares for a minimum period of 15 years subject to (i) any early termination of the Manufacturing Agreement (with an initial term of 15 years commencing on 1 July 2013), or (ii) the withdrawal or exclusion of Biostime Pharma from ISM's share capital under certain situations as specified in the Framework Agreement and in accordance with the Bylaws. After the expiration of this 15-year period, Biostime Pharma shall remain as a non-cooperative shareholder of ISM as long as the Manufacturing Agreement is in force and effect, unless Biostime Pharma decides to withdraw from ISM pursuant to the Bylaws.

24. INVENTORIES

	Group	
	2014	2013
	RMB'000	*RMB'000*
Raw materials	**535,693**	445,516
Raw materials in transit	**156,031**	375,522
Work in progress	**2,491**	2,881
Finished goods	**102,812**	147,974
	797,027	971,893

25. TRADE AND BILLS RECEIVABLES

	Group	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**1,529**	475
Bills receivable	**10,514**	14,707
Less: Impairment provision	**–**	–
	12,043	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.

25. TRADE AND BILLS RECEIVABLES (Continued)

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

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

	Group	
	2014	2013
	RMB'000	*RMB'000*
Within 1 month	1,513	7,605
1 to 3 months	10,529	7,576
Over 3 months	1	1
	12,043	15,182

The above aged analysis included the bills receivable balance of RMB10,514,000 (2013: RMB14,707,000).

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.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	2014	2013
	RMB'000	*RMB'000* (Restated)	*RMB'000*	*RMB'000*
Prepayments	31,172	26,538	27,736	23,689
Deposits	1,202	1,867	166	115
Other receivables	87,330	77,577	3,491	3,185
Prepaid expenses	16,285	3,475	–	–
Current portion of prepaid land lease payments *(note 15)*	1,478	1,478	–	–
	137,467	110,935	31,393	26,989

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.

27. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND RESTRICTED BANK DEPOSIT

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**1,868,280**	824,836	**477,303**	174,253
Time deposits	**2,625,060**	1,762,874	**–**	–
	4,493,340	2,587,710	**477,303**	174,253
Less:				
Non-pledged time deposits with maturity date after one year	**(1,146,183)**	(854,874)	**–**	–
Restricted bank deposit for business combination	**–**	(70,000)	**–**	–
Cash and cash equivalents as stated in the consolidated statement of financial position	**3,347,157**	1,662,836	**477,303**	174,253
Less:				
Non-pledged time deposits with original maturity of three months or more when acquired	**(900,000)**	(898,000)	**–**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows	**2,447,157**	764,836	**477,303**	174,253
Denominated in RMB *(note)*	**3,598,252**	2,382,215	**48,543**	5,307
Denominated in other currencies	**895,088**	205,495	**428,760**	168,946
	4,493,340	2,587,710	**477,303**	174,253

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.

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

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.

28. TRADE AND BILLS PAYABLES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**289,529**	354,760	**30,567**	39,511
Bills payable	**5,013**	6,874	**–**	–
	294,542	361,634	**30,567**	39,511

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 month	**273,967**	356,646	**30,567**	39,511
1 to 3 months	**19,825**	4,731	**–**	–
Over 3 months	**750**	257	**–**	–
	294,542	361,634	**30,567**	39,511

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

Included in the Group's trade payables are amounts due to the Group's associate of RMB20,498,000 (2013: nil), which are repayable on similar credit terms to those offered by the major suppliers of the Group.

29. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances from customers	**11,725**	10,824	**–**	–
Salaries and welfare payables	**87,900**	126,773	**1,214**	1,866
Accruals	**402,252**	323,624	**12,347**	5,365
Other tax payables	**114,187**	127,130	**–**	–
Deferred income *(note 33)*	**31,397**	51,768	**–**	–
Other payables	**90,033**	79,719	**–**	–
	737,494	719,838	**13,561**	7,231

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

30. INTEREST-BEARING BANK LOANS

	Group and the Company					
	2014			2013		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Unsecured bank loans	**–**	**–**	**–**	HIBOR+2.25%	On demand	568,941
Unsecured bank loans	**–**	**–**	**–**	2.87%	On demand	35,380
Unsecured bank loans	**–**	**–**	**–**	1.24%	On demand	146,292
			–			750,613

As at 31 December 2013, all the Group's bank loans are denominated in HK$ and US$ at aggregate amounts of RMB546,430,000 and RMB204,183,000, respectively.

31. 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 year.

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.

31. CONVERTIBLE BONDS (Continued)

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

	2014 RMB'000	2013 RMB'000
Nominal value of convertible bonds issued during the year	2,460,625	–
Equity component	(66,978)	–
Direct transaction costs	(46,255)	–
Liability component at the issuance date	2,347,392	–
Interest expense	77,983	–
Exchange alignment	(14,849)	–
Liability component	2,410,526	–

32. DEFERRED TAX

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

Deferred tax assets

Group

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2014	1,266	89,108	20,576	12,942	123,892
Credited/(charged) to the profit or loss for the year	261	3,950	5,885	(5,092)	5,004
At 31 December 2014	1,527	93,058	26,461	7,850	128,896
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

32. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

Company

	Accrued liabilities and future deductible expenses RMB'000
At 1 January 2014	**334**
Credited to the profit or loss for the year	**1**
At 31 December 2014	**335**
At 1 January 2013	–
Credited to the profit or loss for the year	334
At 31 December 2013	334

Deferred tax liabilities

Group

	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 year	**(43,366)#**	**(1,326)**	**(44,692)**
At 31 December 2014	**16,305**	**19,619**	**35,924**
At 1 January 2013	77,489	–	77,489
(Credited)/charged to the profit or loss for the year	(17,818)#	20,945	3,127
At 31 December 2013	59,671	20,945	80,616

The amount as at 31 December 2014 represented a deferred tax provision of RMB14,152,000 (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 RMB57,518,000 (31 December 2013: RMB48,387,000) arising from dividends declared by these subsidiaries to their foreign investors during the year.

32. DEFERRED TAX (Continued)

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

	Group 2014 RMB'000	Group 2013 RMB'000 (Restated)
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	**128,896**	123,892
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	**(35,924)**	(80,616)
	92,972	43,276

Pursuant to the Enterprise Income Tax Law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable rate for the Group is 5%.

As at 31 December 2014, the Group has not recognised deferred tax liabilities of RMB55,715,000 (2013: RMB27,167,000) in respect of temporary differences relating to the unremitted profits of subsidiaries, amounting to RMB1,114,300,000 (2013: RMB543,340,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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

33. DEFERRED INCOME

	Group 2014 RMB'000	Group 2013 RMB'000
Customer loyalty program		
At 1 January	**51,768**	33,381
Addition	**416,114**	555,907
Recognised as revenue during the year	**(436,485)**	(537,520)
At 31 December	**31,397**	51,768

34. SHARE CAPITAL

Shares

	2014	2013
Authorised:		
10,000,000,000 (2013: 10,000,000,000) ordinary shares of HK$0.01 each	**HK$100,000,000**	HK$100,000,000
Issued and fully paid:		
606,825,765 (2013: 602,294,000) ordinary shares of HK$0.01 each	**HK$6,068,258**	HK$6,022,940
Equivalent to	**RMB5,197,000**	RMB5,161,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital *HK$'000*	Equivalent to *RMB'000*
At 31 December 2013 and 1 January 2014	**602,294,000**	**6,023**	**5,161**
Share options exercised *(note (a))*	**2,428,449**	**24**	**19**
Issues for 2013 Share Award Scheme *(note (b))*	**2,103,316**	**21**	**17**
	4,531,765	**45**	**36**
At 31 December 2014	**606,825,765**	**6,068**	**5,197**

Notes:

(a) During the year, the subscription rights attaching to 2,428,449 share options were exercised, resulting in the issue of 2,428,449 shares of HK$0.01 each and the increase in share capital of HK$24,000 (equivalent to RMB19,000).

(b) During the year, the Company issued 2,103,316 shares of HK$0.01 each pursuant to 2013 Share Award Scheme, resulting in an increase in share capital of HK$21,000 (equivalent to RMB17,000).

Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 35 to the financial statements.

Share Award Schemes

Details of the Company's share award schemes and the shares awarded under the schemes are included in note 36 to the financial statements.

35. SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

On 12 July 2010, the Company adopted a pre-initial public offering share option scheme (the "Pre-IPO Share Option Scheme"). The purpose of the Pre-IPO Share Option Scheme is to give the directors, senior management, employees and business partners an opportunity to have a personal stake in the Company and help motivate the directors, senior management, employees and business partners to optimise their performance and efficiency and/or to reward them for their past contributions, and also to retain or otherwise maintain ongoing relationships with those whose contributions are important to the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by a written resolution of the sole shareholder dated 12 July 2010, are as follows:

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

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

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

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

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

35. SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

A total of 11,150,249 shares were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme at a consideration of HK$1.00 paid by each grantee.

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

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated at approximately RMB25,068,000 as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

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

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

	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 year	2.53	(216)	2.53	(772)
Exercised during the year	2.53	(2,034)	2.53	–
At 31 December	2.53	6,929	2.53	9,179

The weighted average share price at the date of exercise for share options exercised under the Pre-IPO Share Option Scheme during the year was HK$49.00 per share (2013: No share options were exercised).

35. SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme at 31 December 2014 are as follows:

Number of options '000	Exercise price HK$ per share	Exercise period
655	2.53	17-12-13 to 17-12-16
2,689	2.53	17-12-14 to 17-12-16
3,585	2.53	17-12-15 to 17-12-16
6,929		

The Group recognised a share option expense related to share options under the Pre-IPO Share Option Scheme of RMB2,236,000 during the year ended 31 December 2014 (2013: RMB3,360,000).

2,034,233 share options under the Pre-IPO Share Option Scheme were exercised during the year, resulting in the issue of 2,034,233 ordinary shares of the Company and new share capital of HK$20,000 (equivalent to RMB16,000) and share premium of HK$5,126,000 (before issue expenses, and equivalent to RMB4,061,000). An amount of RMB4,040,000 was transferred from the share option reserve to the share premium account upon the exercise of the 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 6,929,000 additional ordinary shares of the Company and additional share capital of HK$69,000 (equivalent to RMB55,000) and share premium of HK$17,461,000 (equivalent to RMB13,774,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 6,920,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.1% of the Company's shares in issue as at that date.

35. SHARE OPTION SCHEMES (Continued)

Share Option Scheme

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

The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the total number of shares in issue of the Company from time to time.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes of the Group shall not, in aggregate, exceed 10% of the total number of shares in issue of the Company as at the Listing Date. The maximum number of shares issued and to be issued upon exercise of the share options granted to any eligible participant in the Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue from time to time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

35. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

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

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

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

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

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

	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 year	19.26	(385)	16.64	(541)
Exercised during the year	17.31	(394)	–	–
At 31 December	18.11	2,739	18.11	3,518

The weighted average share price at the date of exercise for share options exercised under the Share Option Scheme during the year was HK$46.24 per share (2013: No share options were exercised).

35. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

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

31 December 2014 Number of options '000	31 December 2013 Number of options '000	Exercise price* HK$ per share	Exercise period
84	211	15.312	17-12-13 to 17-12-16
79	224	11.52	17-12-13 to 17-12-16
90	90	12.12	17-12-13 to 17-12-16
92	175	19.64	17-12-13 to 17-12-16
202	355	24.70	17-12-13 to 17-12-16
192	211	15.312	17-12-14 to 17-12-16
199	224	11.52	17-12-14 to 17-12-16
90	90	12.12	17-12-14 to 17-12-16
152	175	19.64	17-12-14 to 17-12-16
307	355	24.70	17-12-14 to 17-12-16
256	283	15.312	17-12-15 to 17-12-16
266	299	11.52	17-12-15 to 17-12-16
120	120	12.12	17-12-15 to 17-12-16
201	233	19.64	17-12-15 to 17-12-16
409	473	24.70	17-12-15 to 17-12-16
2,739	3,518		

* 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.

The Group recognised a share option expense related to share options under the Share Option Scheme of RMB2,252,000 during the year ended 31 December 2014 (2013: RMB6,715,000).

394,216 share options under the Share Option Scheme were exercised during the year, resulting in the issue of 394,216 ordinary shares of the Company and new share capital of HK$4,000 (equivalent to RMB3,000) and share premium of HK$6,821,000 (equivalent to RMB5,403,000) (before issue expenses). An amount of RMB1,821,000 was transferred from the share option reserve to the share premium account upon the exercise of the 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 2,739,000 additional ordinary shares of the Company and additional share capital of HK$27,000) (equivalent to RMB22,000) and share premium of HK$49,435,000 (equivalent to RMB38,997,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 2,698,000 share options outstanding under the Share Option Scheme, which represented approximately 0.4% of the Company's shares in issue as at that date.

36. 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 year ended 31 December 2014, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (2013: RMB64,093,000).

Summary of particulars of the shares granted under the Share Award Scheme (the "Awarded Shares") during the year is as follows:

				Number of Awarded Shares		
Date of grant	**Number of outstanding awarded shares as at 31 December 2013 and newly granted during the year**	**Fair value** *RMB*	**Vesting date**	**Vested during the year**	**Forfeited during the year**	**Outstanding awarded shares as at 31 December 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	–	(817,394)	–
10 October 2014	662,427	12,783,000	30 October 2015	–	(16,827)	645,600[1]
Total	2,660,208	91,838,000		(1,086,666)	(927,942)	645,600

[1]: Among these Awarded Shares granted, 17,600 Awarded Shares were granted to the executive directors.

36. SHARE AWARD SCHEMES (Continued)

Share Award Scheme (Continued)

The Group recognised a share award expense of RMB3,834,000 during the year (2013: RMB48,977,000). No amount was recognised for the awarded shares granted on 21 October 2013 as the awarded shares granted did not vest because of failure to satisfy the vesting condition.

1,086,666 shares held for the Share Award Scheme amounted to RMB25,043,000 were awarded upon vesting during the year (2013: RMB27,431,000). Share award reserve of RMB11,374,000 related to the forfeited Awarded Shares was transferred to retained profits for the forfeited Awarded Shares during the year (2013: RMB9,296,000).

At the date of approval of these financial statements, 745,933 outstanding Awarded Shares are held by the Trustee of the Share Award Scheme for relevant grantees; and 567,526 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.

36. SHARE AWARD SCHEMES (Continued)

2013 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:

				Number of Awarded Shares		
Date of grant	Number of awarded shares granted during the year	Fair value *RMB*	Vesting date	Vested during the year	Forfeited during the year	Outstanding awarded shares as at 31 December 2014
22 April 2014	1,265,644	50,658,000	23 December 2014	–	(1,265,644)	–
10 October 2014	2,103,316	40,588,000	30 October 2015	–	(105,031)	1,998,285
Total	3,368,960	91,246,000		–	(1,370,675)	1,998,285

During the year, the Company issued 2,103,316 shares of HK$0.01 each pursuant to 2013 Share Award Scheme, resulting in an increase in share capital of HK$21,000 (equivalent to RMBRMB17,000).

The Group recognised a share award expense of RMB8,210,000 during the year (2013: nil). No amount was recognised for the awarded shares granted on 22 April 2014 as the awarded shares granted did not vest because of failure to satisfy the vesting condition.

At the date of approval of these financial statements, 2,103,316 shares of the Company is issued and held by the trustee of the 2013 Share Award Scheme for relevant grantees.

37. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 90 of the financial statements.

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

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

In accordance with the Company Law of 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 ("PRC GAAP"), to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

37. RESERVES (Continued)

(b) Company

	Notes	Share premium account RMB'000	Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2013		390,649	(30,505)	3,260,270	16,716	22,985	(243,693)	253,513	3,669,935
Total comprehensive income for the year		–	–	–	–	–	(115,922)	479,710	363,788
Equity-settled share option arrangements	35	–	–	–	10,075	–	–	–	10,075
Shares purchased for the Share Award Scheme	36	–	(64,093)	–	–	–	–	–	(64,093)
Equity-settled Share Award Scheme	36	–	27,431	–	–	12,250	–	9,296	48,977
Final 2012 dividend declared		1,036#	–	–	–	–	–	–	1,036
Special 2012 dividend		1,221#	–	–	–	–	–	–	1,221
Interim 2013 dividend	12	(119,437)	–	–	–	–	–	–	(119,437)
Interim 2013 special dividend	12	(90,773)	–	–	–	–	–	–	(90,773)
Proposed final 2013 dividend	12	–	–	–	–	–	–	(209,834)	(209,834)
Proposed final special 2013 dividend	12	–	–	–	–	–	–	(157,376)	(157,376)
At 31 December 2013 and 1 January 2014		182,696	(67,167)	3,260,270	26,791	35,235	(359,615)	375,309	3,453,519
Total comprehensive income for the year		–	–	–	–	–	7,677	1,026,854	1,034,531
Equity-settled share option arrangements	35	15,325	–	–	(1,373)	–	–	–	13,952
Equity-settled Share Award Scheme	36	–	25,026	–	–	(24,373)	–	11,374	12,027
Final 2013 dividend declared		–	–	–	–	–	–	(674)#	(674)
Special 2013 dividend		–	–	–	–	–	–	(505)#	(505)
Interim 2014 dividend	12	–	–	–	–	–	–	(124,315)	(124,315)
Proposed final 2014 dividend	12	–	–	–	–	–	–	(196,944)	(196,944)
Proposed final special 2014 dividend	12	–	–	–	–	–	–	–	–
At 31 December 2014		198,021	(42,141)	3,260,270	25,418	10,862	(351,938)	1,091,099	4,191,591

\# Dividend income arising on 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.

37. RESERVES (Continued)

(b) Company (Continued)

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

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

38. BUSINESS COMBINATION

On 30 December 2013, the Group acquired 100% interest 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 formulas products. The acquisition was made as part of the Group's strategy to manufacture certain of the Group's infant formulas 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 payments and intangible assets, and the determination of the tax basis of the assets and liabilities acquired.

By the date of approval of these financial statements, the valuation of the property, plant and equipment, land lease payments 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	*14*	140,948	145,113
Prepaid land lease payments	*15*	66,052	46,052
Intangible assets	*17*	–	103,780
Deferred tax liability	*32*	–	(20,945)
Total identifiable net assets at fair value		207,000	274,000
Goodwill on acquisition	*16*	143,000	76,000
Satisfied by cash		350,000	350,000

38. BUSINESS COMBINATION (Continued)

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 current portion of prepaid land lease payments included 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.

39. CONTINGENT LIABILITIES

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

40. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**29,448**	49,771	**578**	350
In the second to fifth years, inclusive	**21,864**	43,143	**1,004**	–
After five years	**4,043**	5,227	**–**	–
	55,355	98,141	**1,582**	350

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40 above, the Group had the following capital commitments at the end of the reporting period:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Intangible assets	**825**	333	**–**	–
Fixed assets	**24,206**	112,089	**–**	–
	25,031	112,422	**–**	–

42. LOANS TO DIRECTORS

Loans to directors, disclosed pursuant to section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap.32), are as follows:

Group

	31 December 2014 RMB'000	Maximum amount outstanding during the year RMB'000	31 December 2013 RMB'000	Security held
Luo Fei	–	1,154	1,154	None
Wu Xiong	–	520	520	None
Chen Fufang	–	238	238	None
Kong Qingjuan	–	88	88	None
	–	2,000	2,000	

The loans granted to directors were unsecured, interest-free and have no fixed terms of repayment.

43. RELATED PARTY BALANCES AND TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with a related party during the year:

(a) Related party transactions

	Note	2014 RMB'000	2013 RMB'000
Purchases of raw materials from a company under common control of directors	(i)	6,377	5,630
Purchases of finish goods from an associate	(ii)	25,498	–
Loan to an associate	(iii)	40,000	–

43. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(a) Related party transactions (Continued)

Notes:

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

(ii) The transactions were conducted in accordance with mutually agreed terms.

(iii) The loan to an associate is unsecured and bears interest at a rate of 3% per annum, and is repayable within 2 years.

(b) Outstanding balances with related parties

(i) At the end of the reporting period, the balance owing to the supplier arising from a company under common control of directors was RMB1,645,000 (2013: RMB254,000).

(ii) Details of the Group's trade balance with the associate as at the end of the reporting period are disclosed in note 28.

(iii) Details of the Group's loan to the associate as at the end of the reporting period are included in note 22 to the financial statements.

(iv) Details of the Group's loans to the Company's directors are included in note 42 to the financial statements.

(c) Compensation of key management personnel of the Group

In addition to the amounts paid to the Company's directors as disclosed in note 9(a), compensation of other key management personnel of the Group is as follows:

	2014 *RMB'000*	2013 *RMB'000*
Short-term employee benefits	**51,202**	56,294
Pension scheme contributions	**1,016**	873
Equity-settled share option expense	**731**	1,169
Equity-settled share award expense	**2,459**	6,719
Total compensation paid to key management personnel	**55,408**	65,055

44. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2014

	Notes	Group Held-to-maturity investment *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Bonds receivable	18	–	–	130,302	130,302
Loans receivable	19	–	–	92,988	92,988
Held-to-maturity investment	23	18,810	–	–	18,810
Non-current time deposits	27	–	–	1,146,183	1,146,183
Trade and bills receivables	25	–	–	12,043	12,043
Financial assets included in prepayments, deposits and other receivables		–	–	88,532	88,532
Derivative financial instrument	19	–	2,570	–	2,570
Cash and cash equivalents	27	–	–	3,347,157	3,347,157
		18,810	2,570	4,817,205	4,838,585

2013

	Notes	Group Held-to-maturity investment *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Bonds receivable	18	–	–	98,092	98,092
Loans receivable	19	–	–	112,587	112,587
Held-to-maturity investment	23	21,240	–	–	21,240
Non-current time deposits	27	–	–	854,874	854,874
Trade and bills receivables	25	–	–	15,182	15,182
Financial assets included in prepayments, deposits and other receivables		–	–	79,444	79,444
Due from directors	42	–	–	2,000	2,000
Derivative financial instrument	19	–	5,936	–	5,936
Restricted bank deposit	27	–	–	70,000	70,000
Cash and cash equivalents	27	–	–	1,662,836	1,662,836
		21,240	5,936	2,895,015	2,922,191

44. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets (Continued)

2014

	Notes	Company Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Loans receivable	19	–	92,988	92,988
Loans to subsidiaries	21	–	1,117,106	1,117,106
Due from subsidiaries	21	–	1,456,603	1,456,603
Financial assets included in prepayments, deposits and other receivables		–	3,657	3,657
Derivative financial instrument	19	2,570	–	2,570
Cash and cash equivalents	27	–	477,303	477,303
		2,570	3,147,657	3,150,227

2013

	Notes	Company Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Loans receivable	19	–	112,587	112,587
Due from subsidiaries	21	–	567,783	567,783
Financial assets included in prepayments, deposits and other receivables		–	3,300	3,300
Derivative financial instrument	19	5,936	–	5,936
Cash and cash equivalents	27	–	174,253	174,253
		5,936	857,923	863,859

44. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities at amortised cost

		Group	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
Trade and bills payables	*28*	**294,542**	361,634
Financial liabilities included in other payables and accruals		**488,482**	399,935
Interest-bearing bank loans	*30*	**–**	750,613
		783,024	1,512,182

		Company	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
Trade payables	*28*	**30,567**	39,511
Due to subsidiaries	*21*	**52,294**	26,878
Financial liabilities included in other payables and accruals		**12,347**	5,365
Interest-bearing bank loans	*30*	**–**	750,613
Convertible bonds	*31*	**2,410,526**	–
		2,505,734	822,367

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

The Group and the Company

	Carrying amounts		Fair values	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Derivative financial instrument	**2,570**	5,936	**2,570**	5,936

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposit, loans receivable, amounts due from directors, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

(a) The fair values of the non-current time deposits, loans receivable, bonds receivable, and held-to maturity investment have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans, and the suppliers' non-performance risk for loans and bonds receivable as at 31 December 2014 was assessed to be insignificant.

(b) The derivative financial instrument embedded in a loan receivable is measured using valuation techniques of present value calculations.

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

	Valuation technique	Significant unobservable input	Range	Sensitivity of the input to fair value
Derivative financial instrument	Discounted cash flow method	Weighted average cost of capital (WACC)	12.0% to 14.0%	1% increase in WACC would result in increase in fair value by RMB445,000 1% decrease in WACC would result in decrease in fair value by RMB1,194,000
		Discount for lack of marketability	31.9% to 33.9%	1% increase in discount would result in decrease in fair value by RMB31,000 1% decrease in discount would result in increase in fair value by RMB65,000

Discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

Group and Company

	Fair value measurement using			
	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instrument				
As at 31 December 2014	–	–	2,570	2,570
As at 31 December 2013	–	–	5,936	5,936

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

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

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

	Increase/ (decrease) in basis points	Group Increase/ (decrease) in profit before tax *RMB'000*	Company Increase/ (decrease) in profit before tax *RMB'000*
Year ended 31 December 2014	50	1,116	465
Year ended 31 December 2014	(50)	(1,116)	(465)
Year ended 31 December 2013	50	(2,835)	(3,326)
Year ended 31 December 2013	(50)	2,835	3,326

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the unit's functional currencies. Approximately 83.8% (2013: 89.2%) 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, and provided loans to suppliers denominated in US$ and DKK and issued convertible loans in HK$. The Group did not enter into any foreign exchange forward contracts to hedge against foreign exchange fluctuations. However, the Group makes rolling forecasts on its foreign currency expenses and arranges payments, so as to alleviate the impact on its business due to exchange rate fluctuations.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

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

	Increase/ (decrease) in US$/Euro/HK$/ DKK rate	Increase/(decrease) in profit before tax	
		2014	2013
	%	***RMB'000***	*RMB'000*
If the RMB weakens against the US$	5	**22,591**	(436)
If the RMB strengthens against the US$	(5)	**(22,591)**	436
If the RMB weakens against the Euro	5	**3,584**	(7,004)
If the RMB strengthens against the Euro	(5)	**(3,584)**	7,004
If the RMB weakens against the HK$	5	**(90,529)**	(29,818)
If the RMB strengthens against the HK$	(5)	**90,529**	29,818
If the RMB weakens against the DKK	5	**2,988**	3,950
If the RMB strengthens against the DKK	(5)	**(2,988)**	(3,950)

Credit risk

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

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

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

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

Except for the convertible bonds of RMB2,410,526,000 as at 31 December 2014 which are due 20 February 2019, all the Group's financial liabilities as at 31 December 2014 and 2013 would be due within 12 months.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 31 December 2013.

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

	2014 ***RMB'000***	2013 *RMB'000* (Restated)
Total liabilities	**3,714,074**	2,125,426
Total assets	**6,631,161**	4,641,019
Liabilities to assets ratio	**56%**	46%

47. COMPARATIVE AMOUNTS

As further explained in note 38, the purchase price allocation for the business combination has been completed in the year ended 31 December 2014, certain comparative amounts have been restated to conform with the current year'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 year.

48. EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant events occurred after the end of the reporting period and up to the approval date of the financial statements.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2015.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2010	2011	2012	2013	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
RESULTS					
REVENUE	1,233,560	2,189,034	3,381,901	4,561,299	**4,731,563**
Gross profit	877,173	1,456,127	2,228,946	2,975,120	**2,926,931**
PROFIT BEFORE TAX	334,063	713,907	1,050,573	1,162,096	**1,118,335**
Income tax expense	(68,380)	(186,556)	(307,467)	(341,381)	**(311,549)**
PROFIT FOR THE YEAR	265,683	527,351	743,106	820,715	**806,786**
Attributable to:					
Owners of the parent	265,683	527,351	743,106	820,715	**806,786**
Non-controlling interests	–	–	–	–	**–**
	265,683	527,351	743,106	820,715	**806,786**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB)					
For profit for the year					
– Basic	0.58	0.88	1.24	1.37	**1.34**
– Diluted	0.58	0.86	1.22	1.34	**1.31**

FIVE YEAR FINANCIAL SUMMARY

	2010 *RMB'000*	2011 *RMB'000*	2012 *RMB'000*	2013 *RMB'000* (Restated)	**2014** ***RMB'000***
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Non-current assets	39,857	287,701	1,242,401	1,775,147	**2,295,440**
Current assets	1,862,142	2,150,365	2,290,991	2,865,872	**4,335,721**
Current liabilities	(236,347)	(415,054)	(1,133,251)	(2,044,810)	**(1,267,624)**
Non-current liabilities	(5,760)	(45,452)	(77,489)	(80,616)	**(2,446,450)**
Net assets	1,659,892	1,977,560	2,322,652	2,515,593	**2,917,087**
Attributable to:					
Owners of the parent	1,659,892	1,977,560	2,322,652	2,515,593	**2,917,087**
Non-controlling interests	–	–	–	–	**–**
	1,659,892	1,977,560	2,322,652	2,515,593	**2,917,087**

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