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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1112)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2011	2010	**Growth rate**
	RMB'000	*RMB'000*	
	(Unaudited)	(Audited)	
Revenue	**867,550**	496,140	74.9%
Gross Profit	**589,694**	352,440	67.3%
Profit for the period	**195,626**	116,753	67.6%
Net cash flows from operating activities	**185,741**	143,030	29.9%
Basic earnings per share	**RMB0.32**	RMB0.26	23.1%
Interim dividend per share	**HK$0.16**	—	

For the six months ended 30 June 2011, the Group recorded the following:

- Revenue amounted to RMB867.6 million, representing an increase of RMB371.5 million or 74.9% from RMB496.1 million in the corresponding period of 2010.
- Profit for the period amounted to RMB195.6 million, representing an increase of RMB78.8 million or 67.6% from RMB116.8 million in the corresponding period of 2010.
- Net cash flow from operating activities amounted to RMB185.7 million, representing an increase of RMB42.7 million or 29.9% from RMB143.0 million in the corresponding period of 2010.
- Basic earnings per share increased from RMB0.26 in the corresponding period of 2010 to RMB0.32, representing an increase of 23.1%. The weighted average number of shares used to calculate the basic earnings per share increased by 33.8% from the six months ended 30 June 2010 due to the shares issued upon the listing of the Company on 17 December 2010 and the exercise of over-allotment options on 11 January 2011.
- On 23 August 2011, the Board has determined that an interim dividend of HK$0.16 per share to be paid on or about 23 September 2011 to the shareholders whose names appear on the register of members of the Company on 8 September 2011.

The board (the "Board") of directors (the "Directors") of Biostime International Holdings Limited (the "Company") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2011, together with the comparative figures for the corresponding period in 2010, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
REVENUE	*4*	**867,550**	496,140
Cost of sales		**(277,856)**	(143,700)
Gross profit		**589,694**	352,440
Other income and gains	*4*	**29,736**	4,549
Selling and distribution costs		**(330,045)**	(190,319)
Administrative expenses		**(32,813)**	(28,361)
Other expenses		**(6,879)**	(2,514)
PROFIT BEFORE TAX	*5*	**249,693**	135,795
Income tax expense	*6*	**(54,067)**	(19,042)
PROFIT FOR THE PERIOD		**195,626**	116,753
Profit attributable to owners of the parent		**195,626**	116,753
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(30,406)**	5
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**165,220**	116,758
Total comprehensive income attributable to owners of the parent		**165,220**	116,758
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	*8*		
Basic		**RMB0.32**	RMB0.26
Diluted		**RMB0.32**	RMB0.26

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2011

	Notes	**As at 30 June 2011 RMB'000 (Unaudited)**	As at 31 December 2010 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**41,106**	31,280
Intangible assets		**1,393**	1,168
Deposits	*12*	**6,780**	1,640
Deferred tax assets	*16*	**27,943**	5,769
Total non-current assets		**77,222**	39,857
CURRENT ASSETS			
Inventories	*10*	**160,616**	106,098
Trade and bills receivables	*11*	**7,988**	5,211
Prepayments, deposits and other receivables	*12*	**40,201**	22,622
Cash and cash equivalents	*13*	**1,785,331**	1,728,211
Total current assets		**1,994,136**	1,862,142
CURRENT LIABILITIES			
Trade payables	*14*	**78,910**	65,833
Other payables and accruals	*15*	**184,610**	142,344
Tax payable		**46,930**	28,170
Total current liabilities		**310,450**	236,347
NET CURRENT ASSETS		**1,683,686**	1,625,795
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,760,908**	1,665,652
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*16*	**13,567**	5,760
Net assets		**1,747,341**	1,659,892
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*17*	**5,161**	5,141
Reserves		**1,663,123**	1,553,354
Proposed dividend	*7*	**79,057**	101,397
Total equity		**1,747,341**	1,659,892

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2011

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and IAS 34 "Interim Financial Reporting" issued by the International Accounting Standard Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The basis of preparation and accounting policies used in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations as disclosed in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's unaudited interim condensed consolidated financial statements.

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

The adoption of these new and revised IFRSs has had no significant financial effect on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

3. OPERATING SEGMENT INFORMATION

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

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

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

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

(d) 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.

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

The Group's revenue from external customers is all derived from its operations in the People's Republic of China (the "PRC") and its non-current assets are all located in the PRC.

During the six months ended 30 June 2011 and 2010, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Six months ended 30 June 2011 (Unaudited)	**Probiotic supplements** *RMB'000*	**Infant formulas** *RMB'000*	**Dried baby food products** *RMB'000*	**Baby care products** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Segment revenue:						
Sales to external customers	**159,296**	**636,550**	**53,631**	**18,073**	**—**	**867,550**
Segment results	**127,066**	**424,266**	**32,058**	**6,304**	**—**	**589,694**
Reconciliations:						
Interest income						**7,392**
Other income and unallocated gains						**22,344**
Corporate and other unallocated expenses						**(369,737)**
Profit before tax						**249,693**
Other segment information:						
Depreciation and amortisation	**1,502**	**142**	**424**	**12**	**3,263**	**5,343**
Write-down of inventories to net realisable value	**17**	**6**	**122**	**331**	**—**	**476**
Capital expenditure*	**248**	**543**	**90**	**—**	**14,617**	**15,498**

Six months ended 30 June 2010 (Audited)	Probiotic supplements *RMB'000*	Infant formulas *RMB'000*	Dried baby food products *RMB'000*	Baby care products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	138,492	287,864	42,686	27,098	—	496,140
Segment results	110,336	196,867	29,616	15,621	—	352,440
Reconciliations:						
Interest income						853
Other income and unallocated gains						3,696
Corporate and other unallocated expenses						(221,194)
Profit before tax						135,795
Other segment information:						
Depreciation and amortisation	1,251	62	327	5	1,499	3,144
Write-back of impairment of trade receivables	(43)	—	—	—	—	(43)
Write-down of inventories to net realisable value	—	—	286	—	—	286
Capital expenditure*	57	85	17	16	5,544	5,719

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

4. 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 and trade discounts (net of value-added tax) during the six months ended 30 June 2011 and 2010.

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Revenue		
Sale of goods	**867,550**	496,140
Other income and gains		
Bank interest income	**7,392**	853
Foreign exchange gain	**21,169**	3,117
Others	**1,175**	579
	29,736	4,549

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cost of inventories sold	**277,380**	143,414
Depreciation	**5,302**	3,012
Amortisation of intangible assets	**41**	132
Research and development costs*	**5,165**	1,619
(Gain)/loss on disposal of items of property, plant and equipment	**(85)**	6
Minimum lease payments under operating leases in respect of buildings	**8,683**	3,657
Auditors' remuneration	**1,400**	1,491
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	**104,537**	41,849
Pension scheme contributions (defined contribution schemes)	**13,564**	5,511
Staff welfare and other expenses	**4,915**	2,644
Equity-settled share option expense	**2,678**	—
	125,694	50,004
Write-back of impairment of trade receivables*	**—**	(43)
Write-down of inventories to net realisable value#	**476**	286

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

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

6. INCOME TAX

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current — PRC		
Charge for the period	**68,434**	24,990
Deferred *(note 16)*	**(14,367)**	(5,948)
Total tax charge for the period	**54,067**	19,042

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

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2011 and 2010.

PRC enterprise income tax ("EIT")

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

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

France corporate income tax

No provision for France corporate income tax has been made as the Group did not generate any assessable profits arising in France during the six months ended 30 June 2011 and 2010.

7. DIVIDENDS

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Interim — HK$0.16 (2010: Nil) per ordinary share	**79,057**	—

On 23 August 2011, the Board of Directors has declared an interim dividend of HK$0.16 per share (2010: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to owners of the parent, and the weighted average number of ordinary shares of 602,166,556 (six months ended 30 June 2010: 450,000,000) in issue during the period as if the group reorganisation ("Reorganisation") had been effective since 1 January 2010.

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Earnings		
Profit attributable to owners of the parent used in the basic earnings per share calculation	**195,626**	116,753

	Number of Shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the six months used in the basic earnings per share calculation	**602,166,556**	450,000,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**8,419,327**	—
	610,585,883	450,000,000

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2010 includes the pro forma issued share capital of the Company of 450,000,000 shares, which comprised the following:

(i) 1 share issued to Biostime Pharmaceuticals (China) Limited ("Biostime Pharmaceuticals"); and

(ii) 449,999,999 shares issued to Biostime Pharmaceuticals as result of Reorganisation.

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2011 includes 150,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 17 December 2010 (the "Listing Date"), the weighted average of 2,294,000 shares issued on 11 January 2011 pursuant to the exercise of over-allotment options (namely 2,166,556 shares) and the above-mentioned 450,000,000 ordinary shares.

The calculation of the diluted earnings per share amount for the six months ended 30 June 2011 is based on the profit for the period attributable to owners of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the six months ended 30 June 2011, 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.

No adjustment had been made to the basic earnings per share amount presented for the six months ended 30 June 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during that period.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired property, plant and equipment with an aggregate cost of RMB15,232,000 (six months ended 30 June 2010: RMB5,519,000). During that period, depreciation of RMB5,302,000 (six months ended 30 June 2010: RMB3,012,000) was charged and property, plant and equipment with an aggregate carrying amount of RMB104,000 (six months ended 30 June 2010: RMB13,000) was disposed of by the Group.

10. INVENTORIES

	As at 30 June 2011 *RMB'000* **(Unaudited)**	As at 31 December 2010 *RMB'000* (Audited)
Raw materials	**114,679**	82,250
Work in progress	**1,496**	6,483
Finished goods	**44,441**	17,365
	160,616	106,098

11. TRADE AND BILLS RECEIVABLES

	As at 30 June 2011 *RMB'000* **(Unaudited)**	As at 31 December 2010 *RMB'000* (Audited)
Trade receivables	**446**	549
Bills receivable	**7,542**	4,662
	7,988	5,211

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

Trade receivables are unsecured and non-interest-bearing.

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

An aged analysis of the trade and bills receivables as at 30 June 2011, based on the invoice date, is as follows:

	As at 30 June 2011 *RMB'000* **(Unaudited)**	As at 31 December 2010 *RMB'000* (Audited)
Within 1 month	**1,773**	1,075
2 to 3 months	**3,199**	2,503
Over 3 months	**3,016**	1,633
	7,988	5,211

The above aged analysis included bills receivable balance of RMB7,542,000 (31 December 2010: RMB4,662,000).

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Non-current portion

	As at 30 June 2011 *RMB'000* **(Unaudited)**	As at 31 December 2010 *RMB'000* (Audited)
Deposits paid for the purchase of property, plant and equipment	**2,444**	1,640
Deposits paid for operating leases	**4,336**	—
	6,780	1,640

Current portion

	As at 30 June 2011 *RMB'000* **(Unaudited)**	As at 31 December 2010 *RMB'000* (Audited)
Prepayments	**25,241**	9,547
Deposits	**996**	1,716
Other receivables	**13,964**	11,359
	40,201	22,622

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

13. CASH AND CASH EQUIVALENTS

	As at 30 June 2011 *RMB'000* **(Unaudited)**	As at 31 December 2010 *RMB'000* (Audited)
Cash and cash equivalents	**1,785,331**	1,728,211
Denominated in RMB	**1,784,237**	697,931
Denominated in other currencies	**1,094**	1,030,280
	1,785,331	1,728,211

As at 30 June 2011, cash and bank balances denominated in RMB of the subsidiaries in Mainland China amounted to RMB511,281,000 (31 December 2010: RMB358,516,000). The RMB of the subsidiaries in Mainland China is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

14. TRADE PAYABLES

An aged analysis of the trade payables as at 30 June 2011, based on the invoice date, is as follows:

	As at 30 June 2011 *RMB'000* **(Unaudited)**	As at 31 December 2010 *RMB'000* (Audited)
Within 1 month	**72,744**	40,090
2 to 3 months	**6,008**	23,165
Over 3 months	**158**	2,578
	78,910	65,833

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

15. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2011 *RMB'000* **(Unaudited)**	As at 31 December 2010 *RMB'000* (Audited)
Advances from customers	**14,257**	9,017
Salaries and welfare payables	**42,664**	14,452
Accruals	**39,943**	47,102
Other tax payables	**31,340**	58,067
Deferred income	**47,270**	6,603
Other payables	**9,136**	7,103
	184,610	142,344

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

16. DEFERRED TAX

The following are the major deferred tax assets/(liabilities) recognised and their movements during the period:

Deferred tax assets

	Provision for impairment of assets *RMB'000*	Future deductible expense *RMB'000*	Unrealised profit arising from intra-group transactions *RMB'000*	Accrued liabilities and deferred income *RMB'000*	Total *RMB'000*
At 1 January 2011	**105**	**376**	**1,438**	**3,850**	**5,769**
Credited to the interim condensed consolidated statement of comprehensive income for the period *(note 6)*	**30**	**7,082**	**4,048**	**11,014**	**22,174**
At 30 June 2011 (Unaudited)	**135**	**7,458**	**5,486**	**14,864**	**27,943**
At 1 January 2010	94	460	1,186	3,856	5,596
Credited/(charged) to the interim condensed consolidated statement of comprehensive income for the period *(note 6)*	19	(165)	3,913	2,181	5,948
At 30 June 2010 (Audited)	113	295	5,099	6,037	11,544

Deferred tax liabilities

	Withholding taxes on distributable earnings of subsidiaries in the PRC *RMB'000*
At 1 January 2011	**5,760**
Charged to the interim condensed consolidated statement of comprehensive income for the period *(note 6)*	**7,807**
At 30 June 2011 (Unaudited)	**13,567**
At 1 January 2010	—
Charged to the interim condensed consolidated statement of comprehensive income for the period *(note 6)*	—
At 30 June 2010 (Audited)	—

17. SHARE CAPITAL

	As at 30 June 2011 (Unaudited)	As at 31 December 2010 (Audited)
Authorised:		
10,000,000,000 (31 December 2010: 10,000,000,000) ordinary shares of HK$0.01 each	**HK$100,000,000**	HK$100,000,000
Issued and fully paid:		
602,294,000 (31 December 2010: 600,000,000) ordinary shares of HK$0.01 each	**HK$6,022,940**	HK$6,000,000
Equivalent to	**RMB5,161,000**	RMB5,141,000

On 11 January 2011, the Company allotted and issued 2,294,000 ordinary shares of HK$0.01 each pursuant to the over-allotment options as referred to the prospectus dated 3 December 2010 and offered at a price of HK$11.00 per share for a total cash consideration, before expenses, of HK$25,234,000 (equivalent to RMB21,487,000).

BUSINESS REVIEW

In the first half of 2011, China's economy maintained a steady and relatively fast growth. According to the National Bureau of Statistics, China's gross domestic product achieved a year-on-year increase of approximately 9.6% during the first half of 2011. Disposable income per capita for urban and rural citizens grew by 13.2% and 20.4% respectively in the first half of 2011 as compared with the comparable period of 2010. The consumer confidence index of China rebounded and reached 108 in the first quarter of 2011, which was far higher than the global average consumer confidence index of 92. The contrast indicated consumers in China remained positive about the future.

The Group continued to benefit from the booming baby products market in China. For the six months ended 30 June 2011, the Group recorded revenue of RMB867.6 million, representing an increase of 74.9% from the same period last year. Profit for the period was RMB195.6 million, which increased by 67.6% from the same period last year.

During the first half of 2011, infant formulas continued to be the Group's major revenue source. For the six months ended 30 June 2011, revenue of infant formulas increased by 121.1% to RMB636.6 million compared with the same period of 2010, accounting for 73.4% of total revenue. The Group's year-on-year revenue growth rates of high-tier and supreme-tier infant formulas[(1)] were 135.6% and 112.7% respectively in the first half of 2011, which were higher than the comparable market growths of 71.7% and 93.0% in China respectively according to the China's Infant Formulas Market Report For The First Half of 2011 prepared by *The Nielsen Company* (the "Market Report"). According to the Market Report, within the supreme-tier segment of China's infant formulas industry, the Group was the first largest player by sales with a market share of approximately 44.0% in the first half of 2011, increasing from 32.3% in the first half of 2010. Thanks to the Biostime Golden Care Infant Formulas launched in May 2010, the Group's market share within the high-tier segment of China's infant formulas industry has increased from 4.3% in the first half of 2010 to 7.4% in the first half of 2011, getting the sixth place.

The Group continued to reinforce its leading position in pediatric probiotic supplements market. For the six months ended 30 June 2011, revenue of probiotic supplements increased by 15.0% to RMB159.3 million, growing approximately 176.5% faster than the CAGR of the children's probiotic supplements market in China of 8.5% during the period from 2010 to 2014 according to *Euromonitor International*, and accounted for 18.3% of the Group's total revenue. For the six months ended 30 June 2011, revenue of dried baby food products and baby care products accounted for 6.2% and 2.1% of the Group's total revenue respectively.

(1) According to the Market Report, infant formulas with retail prices generally between RMB200 and RMB300 per 900g are defined as high-tier infant formulas; infant formulas with retail prices generally higher than RMB300 per 900g are defined as supreme-tier infant formulas.

Enhanced Brand Recognition

To further enhance brand recognition, the Group stepped up efforts in implementing precision and in-depth brand communication through mass media including television, magazines, internet, and Mama100 Membership Platform simultaneously. During the first half of 2011, the Group launched a massive new TV advertising campaign in approximately 31 TV channels including provincial TV channels and CCTV channels and cooperated with more than 20 professional nursing websites.

Mama100 Membership Program

The Group implemented precision marketing through the innovative Mama100 Membership Program, a key service program that offered the members access to the customer service and nursing consulting hotline, the mama100.com website, and membership points accumulation program. By the end of the first half of 2011, the number of active members of the Group has increased to 685,458, representing an increase of 112.7% as compared with 30 June 2010.

Distribution Channels

Distribution channels are the important component of the Group's sophisticated value chain. The Group continues to widen its nationwide geographic footprint by consolidating distribution channels which consist of specialty stores, retail sales organizations and pharmacies. By the end of the first half of 2011, the number of VIP specialty stores has increased by 48.0% to 4,399, Mama100 Members' Zones in pharmacies increased by 126.2% to 389, and retail sales organizations increased by 35.2% to 2,126, as compared with 30 June 2010, respectively.

During the first half of 2011, approximately 68.0% of the Group's products were sold through VIP specialty stores, increased from 66.0% in the same period of last year; approximately 10.0% were sold through pharmacies, declined from 22.0% in the same period of 2010; and approximately 22.0% were sold through retail sales organizations, jumped from 12.0% in the comparable period of 2010.

Quarterly Campaigns among VIP Specialty Stores

The quarterly campaigns among VIP specialty stores are also one of the Group's innovative marketing activities, which further consolidate strategic partnership with VIP specialty stores. The campaigns include operation management training program for VIP specialty stores, forum, experience sharing and sales competition and etc. The campaigns fully integrate Mama100 Training Program, membership points accumulation program and membership stores magazines under Mama100 Membership Program. By the end of 30 June 2011, the Group has successfully organized 10 quarterly campaigns since 2008, which have attracted more than 4,000 VIP specialty stores to actively participate. This kind of effective marketing activities enables the Group to maintain a fast growth in VIP specialty stores as the Group's largest distribution channel.

Mama100 Members' Zones in Retail Sales Organizations

The Group has set up temporary Mama100 Members' Zones in retail sales organizations. It is one of the Group's innovative and successful marketing activities and enables the Group to attract a large number of new members and increase the loyalty of old members in a short time through the implementation of precision marketing which includes precise selection of mothers participants, points accumulation and redemption experience using Mama100 Membership Card, product tasting, professional nursing consulting, and various consumer communication campaigns, while strengthening cooperation with retail sales organizations. Due to the precision marketing strategy, revenue from retail sales organizations increased by approximately 150.0% as compared with the same period of last year, representing a much faster growth rate than the other distribution channels. The new members from retail sales organizations increased by 169.2% in the six months ended 30 June 2011 as compared with the corresponding period of 2010.

Sales Team

In order to expand the Group's nationwide geographic coverage, effectively conduct the Group's sales and marketing activities in every geographical region, and to support the Group's distribution channels expansion and sophisticated value chain management, the Group has increased its sales offices from 62 to 87 by 30 June 2011, and completed systematic training programs for new sales managers and supervisors. The Group has also established business management systems for all new sales offices. The Group believes the successful marketing strategies it has created in existing areas will continue to be replicated successfully in new geographical regions in the future.

Construction of Research and Development Center

As listed in the Company's prospectus dated 3 December 2010, approximately 15.0% of net proceeds from the initial public offering will be used to invest in research and development as well as expand production infrastructure and warehouses. On 31 May 2011, the first batch of capital injection from the Company to its subsidiaries in the PRC using the net proceeds was officially approved by the Management Committee of Guangzhou Economic and Technological Development District (廣州經濟技術開發區管委會). The injected fund will mainly be used to invest in research and development as well as expand production infrastructure and warehouses. The Group believes that it will further improve the quality of its current products and develop a more diverse range of products. The construction of research and development center is expected to be completed in 2–3 years.

OUTLOOK

Looking forward into the second half of 2011, the Group is confident to capture the abundant opportunities in China's fast growing market of premium pediatric nutritional and baby care products. The Group will continue to increase its brand recognition among consumers and expand its distribution channels. The Group will further its development of Mama100 Membership Program. The Group will also firmly cooperate with its reputable suppliers and enrich its product range to satisfy the ever changing needs of high-end mother consumers.

RESULTS OF OPERATION

Revenue

The Group's revenue increased by 74.9% to RMB867.6 million in the six months ended 30 June 2011 from RMB496.1 million in the six months ended 30 June 2010. This was mainly due to the strengthening brand recognition, the expansion of sales network, and the effective precision marketing activities through Mama100 Membership Program.

	Six months ended 30 June			
	2011		2010	
	Revenue		Revenue	
	RMB'000	***% of total***	*RMB'000*	*% of total*
Probiotic supplements	**159,296**	**18.3%**	138,492	27.9%
Infant formulas	**636,550**	**73.4%**	287,864	58.0%
Dried baby food products	**53,631**	**6.2%**	42,686	8.6%
Baby care products	**18,073**	**2.1%**	27,098	5.5%
Total	**867,550**	**100.0%**	496,140	100.0%

Probiotic Supplements

Revenue of probiotic supplements increased by 15.0% from RMB138.5 million in the six months ended 30 June 2010 to RMB159.3 million in the six months ended 30 June 2011, which was resulting from the expansion of sales network and the expanded customer base from the Group's other products.

Infant Formulas

Revenue of infant formulas increased by 121.1% from RMB287.9 million in the six months ended 30 June 2010 to RMB636.6 million in the six months ended 30 June 2011, accounting for 73.4% of the Group's total revenue for the first half of 2011. During the six months ended 30 June 2011, the revenue of high-tier infant formulas, including Biostime Golden Care Infant Formulas and Biostime Premium Infant Formulas, increased by 135.6% compared with the same period of 2010. Such increase was mainly due to the newly introduced Biostime Golden Care Infant Formulas launched in May 2010. The revenue of supreme-tier infant formulas, including Biostime Supreme Infant Formulas and Biostime Supreme Care Infant Formulas, increased by 112.7%, which was primarily due to the increase in Mama100 active members, greater market recognition and expansion of sales network.

Dried Baby Food Products

Revenue of dried baby food products kept a rapid growth, and rose by 25.5% from RMB42.7 million in the six months ended 30 June 2010 to RMB53.6 million in the six months ended 30 June 2011, which was mainly due to the recognition of organic series among dried baby food products by more and more mothers.

Baby Care Products

By the end of 30 June 2011, the accumulated membership points arising from baby care products increased by 97.2% as compared with the second half of 2010, and approximately 8.7% of new members comes from baby care products, representing an increased sales volume to ultimate consumers. The Group will keep promoting its *BMcare*™ brand and believes *BMcare*™ products will play a more important role over time. Revenue of baby care products under the *BMcare*™ brand had reached RMB18.1 million in the six months ended 30 June 2011, accounting for 2.1% of the Group's total revenue.

Gross Profit Margin

In May 2010, Biostime Golden Care Infant Formulas was launched and has successfully consolidated the Group's market position in high-tier infant formulas market. The Group's market share within the high-tier segment of China's infant formulas industry has increased from 4.3% in the first half of 2010 to 7.4% in the first half of 2011. Revenue contribution of high-tier infant formulas to the Group's infant formulas segment increased from 46.3% in the six months ended 30 June 2010 to 49.4% in the comparable period of 2011, while the revenue contribution of supreme-tier infant formulas decreased from 48.9% to 47.0%. The gross profit margin of infant formulas decreased slightly from 68.4% in the six months ended 30 June 2010 to 66.7% in the same period of 2011 due to the higher revenue contribution from high-tier infant formulas, which has a lower gross profit margin than that of supreme-tier infant formulas. In addition, due to the increased portion of revenue derived from infant formulas, which has a lower gross profit margin than that of probiotic supplements, the Group's overall gross profit margin decreased from 71.0% in the six months ended 30 June 2010 to 68.0% in the six months ended 30 June 2011. To a lesser extent, the decrease in gross profit margin was also attributable to the appreciation of the Euro against the Renminbi by approximately 3.6% on average during the first half of 2011 as compared with the same period of 2010. The Group believes Renminbi will appreciate in the long term. Moreover, the Group will continue to improve the supply chain management to maintain a reasonable gross profit margin.

Selling and Distribution Costs

During the first half of 2011, because of the effective implementation of precision marketing through Mama100 Membership Program and sophisticated value chain management, the Group had effectively managed the spending in operating activities while the revenue increased significantly. Selling and distribution costs as a percentage of revenue decreased from 38.4% in the six months ended 30 June 2010 to 38.0% for the same period in 2011. Due to the increased promotional expenses and advertising expenses, selling and distribution costs increased by 73.4% from RMB190.3 million in the six months ended 30 June 2010 to RMB330.0 million during the same period in 2011.

Administrative Expenses

Administrative expenses as a percentage of revenue decreased from 5.7% in the six months ended 30 June 2010 to 3.8% in the six months ended 30 June 2011. The decrease was primarily due to the Group's effective operation management and enhanced economies of scale. Moreover, the decrease was also caused by the listing expenses, which was on a one-off basis in 2010. In order to support the business growth and solidify the Group's infrastructure, administrative expenses increased by 15.5% from RMB28.4 million in the six months ended 30 June 2010 to RMB32.8 million in the six months ended 30 June 2011.

Income Tax Expense

The effective income tax rate increased from 14.0% in the six months ended 30 June 2010 to 21.7% in the six months ended 30 June 2011, which was also slightly higher as compared with the year ended 31 December 2010 of 20.5%. The increase of effective income tax rate was mainly due to the increased portion of profit before tax contributed by BiosTime, Inc. (Guangzhou), which is subject to corporate income tax rate of 25.0%, and the decreased portion of profit before tax contributed by Biostime (Guangzhou) Health Products Limited, which enjoyed a preferable corporate income tax rate of 12.0% in 2011. Due to the increase in the Group's profit before tax, income tax expense increased by 184.7% from RMB19.0 million in the six months ended 30 June 2010 to RMB54.1 million during the comparable period in 2011.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows from Operating Activities

In the six months ended 30 June 2011, the Group had net cash generated from operating activities of RMB185.7 million, consisting of cash generated from operations of RMB235.4 million, partially offset by income tax paid of RMB49.7 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB250.7 million before working capital adjustments and net negative changes in working capital of RMB15.3 million.

Cash Flows Used in Investing Activities

In the six months ended 30 June 2011, the Group's cash used in investing activities was RMB8.4 million. The Group's net cash outflows for investing activities mainly consisted of (i) purchase of property, plant and equipment and intangible assets of RMB16.0 million, which primarily related to acquisitions of computers, coding machines, vehicles and computer software for business use and (ii) partially offset by interest received from the matured time deposits of RMB7.4 million.

Inventories

The inventory balance as of 30 June 2011 was RMB160.6 million, increased by 51.4% from the balance of RMB106.1 million as of 31 December 2010. The average inventory turnover days decreased from 96 days in 2010 to 86 days in the first half of 2011. The decrease in inventory turnover days was mainly resulting from the significant increase in the Group's sales volume in the first half of 2011, which was far beyond its expectation. Furthermore, the Group makes continuous effort to enforce its effective inventory policy and optimize the supply chain management.

Capital Expenditures

The Group's principal capital expenditures are related to the expansion of production facilities, major maintenance, modernization of existing plant and machinery. The Group's capital expenditures with respect to the purchase of property, plant and equipment and intangible assets were RMB5.3 million and RMB16.0 million in the six months ended 30 June 2010 and 2011, respectively.

SHARE OPTION SCHEME

In order to provide incentives and rewards to senior management and employees who contributed to and will retain to be important to the success of the Group's operations, the Group has granted 978,532 share options to 109 senior management and employees under the Share Option Scheme on 9 June 2011.

REMUNERATION POLICIES

The Group's remuneration policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, 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 and a Share Option Scheme for its employees.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions contained in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has complied with such code provisions throughout the six months ended 30 June 2011 except for the deviation from code provision A.2.1 as disclosed below.

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

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

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that the Group complies 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 during the six months ended 30 June 2011.

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

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

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

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this announcement complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has reviewed the interim results and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2011 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

Apart from the exercise of the over-allotment options on 11 January 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2011.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.16 per share, representing approximately 40% of the Group's profit available for distribution for the period ended 30 June 2011. The interim dividend will be paid on or about 23 September 2011 to the shareholders whose names appear on the register of members of the Company on 8 September 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 7 September 2011 to 8 September 2011, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 6 September 2011.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.biostime.com.cn and Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk. The interim report for the six months ended 30 June 2011 containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and published on the above websites in due course.

By order of the Board
Biostime International Holdings Limited
Luo Fei
Chairman

Hong Kong, 23 August 2011

As at the date of this announcement, the executive Directors are Mr. Luo Fei, Dr. Zhang Wenhui, Ms. Kong Qingjuan; the non-executive Directors are Mr. Wu Xiong, Mr. Luo Yun, Mr. Chen Fufang; and the independent non-executive Directors are Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun.