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 2013

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2013	2012	% of Change
	RMB'000	*RMB'000*	
Revenue	**2,061,481**	1,362,742	51.3%
Gross profit	**1,369,597**	893,596	53.3%
Profit for the period	**297,507**	273,926	8.6%
Profit for the period excluding the NDRC fine	**460,407**	273,926	68.1%
Basic earnings per share	**RMB0.50**	RMB0.46	8.7%
Interim dividend per ordinary share	**HK$0.25**	HK$0.23	8.7%
Special dividend per ordinary share	**HK$0.19**	–	–

For the six months ended 30 June 2013, the Group recorded the following:

- Revenue amounted to RMB2,061.5 million, representing an increase of RMB698.7 million or 51.3% from RMB1,362.7 million in the corresponding period of 2012.
- Profit for the period amounted to RMB297.5 million, representing an increase of RMB23.6 million or 8.6% from RMB273.9 million in the corresponding period of 2012.
- Excluding the one-off fine of RMB162.9 million imposed by the National Development and Reform Commission (the "NDRC") of the People's Republic of China, core profit amounted to RMB460.4 million, representing an increase of RMB186.5 million or 68.1% from RMB273.9 million in the corresponding period of 2012.
- Basic earnings per share increased from RMB0.46 in the corresponding period of 2012 to RMB0.50, representing an increase of 8.7%. The weighted average numbers of shares used to calculate the basic earnings per share for the six months ended 30 June 2013 and 2012 were adjusted by the weighted average number of shares purchased for the Share Award Scheme of 3,176,569 and 2,948,995, respectively.
- On 20 August 2013, the Board determined that an interim dividend of HK$0.25 per ordinary share and a special dividend of HK$0.19 per ordinary share to be paid on or about 27 September 2013 to the shareholders whose names appear on the register of members of the Company on 6 September 2013.

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 2013, together with the comparative figures for the corresponding period in 2012, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	5	**2,061,481**	1,362,742
Cost of sales		**(691,884)**	(469,146)
Gross profit		**1,369,597**	893,596
Other income and gains	5	**61,780**	21,633
Selling and distribution costs		**(667,220)**	(475,382)
Administrative expenses		**(78,782)**	(49,825)
Other expenses		**(24,908)**	(16,958)
Fine on the violation of Anti-Monopoly Law	6	**(162,900)**	–
Finance costs	7	**(3,573)**	(175)
PROFIT BEFORE TAX		**493,994**	372,889
Income tax expense	8	**(196,487)**	(98,963)
PROFIT FOR THE PERIOD		**297,507**	273,926
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**495**	4,246
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**298,002**	278,172
Profit attributable to owners of the parent		**297,507**	273,926
Total comprehensive income attributable to owners of the parent		**298,002**	278,172
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	10		
Basic		**0.50**	0.46
Diluted		**0.49**	0.45

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2013

	Notes	**30 June 2013 *RMB'000* (Unaudited)**	31 December 2012 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**90,649**	77,074
Prepaid land lease payment		**19,938**	20,147
Intangible assets		**3,674**	1,151
Loans receivable	13	**90,984**	110,484
Deposits		**26,000**	12,795
Time deposits		**994,180**	942,062
Deferred tax assets		**118,895**	78,688
Total non-current assets		**1,344,320**	1,242,401
CURRENT ASSETS			
Inventories	11	**762,005**	523,267
Trade and bills receivables	12	**4,389**	372
Prepayments, deposits and other receivables		**78,971**	85,689
Loans receivable	13	**19,002**	12,597
Derivative financial instrument	14	**4,001**	–
Cash and cash equivalents		**1,573,701**	1,669,066
Total current assets		**2,442,069**	2,290,991
CURRENT LIABILITIES			
Trade and bills payables	15	**287,364**	263,118
Other payables and accruals	16	**727,214**	443,817
Interest-bearing bank loans		**405,151**	270,526
Tax payable		**109,213**	155,790
Total current liabilities		**1,528,942**	1,133,251
NET CURRENT ASSETS		**913,127**	1,157,740
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,257,447**	2,400,141
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**53,718**	77,489
Net assets		**2,203,729**	2,322,652
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**5,161**	5,161
Reserves		**2,198,568**	1,903,534
Proposed dividends		**–**	413,957
Total equity		**2,203,729**	2,322,652

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2013

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2013 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and IAS 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") (which also include International Accounting Standards ("IASs") and Interpretations) and the accounting policy for derivative financial instrument as disclosed in note 3 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2012.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current period's unaudited interim condensed consolidated financial statements.

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

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

In addition, the Group has applied the accounting policy for derivative financial instrument during the period.

Derivative financial instrument

Derivative financial instrument embedded in a host contract is accounted for as a separate derivative and recorded at fair value if its economic characteristics and risks is not closely related to those of the host contract and the host contract is not held for trading or designated at fair value through profit or loss. The embedded derivative is measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

During the six months ended 30 June 2013 and 2012, 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 2013 (Unaudited)	**Probiotic supplements** *RMB'000*	**Infant formulas** *RMB'000*	**Dried baby food products** *RMB'000*	**Baby care products** *RMB'000*	**Nutrition supplements** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Segment revenue:							
Sales to external customers	**228,306**	**1,682,183**	**61,397**	**63,442**	**26,153**	**–**	**2,061,481**
Segment results	**177,619**	**1,104,814**	**35,163**	**35,190**	**16,811**	**–**	**1,369,597**
Reconciliations:							
Interest income							**43,928**
Other income and unallocated gains							**17,852**
Corporate and other unallocated expenses							**(933,810)**
Finance costs							**(3,573)**
Profit before tax							**493,994**
Other segment information:							
Depreciation and amortisation	**1,098**	**394**	**361**	**77**	**156**	**10,930**	**13,016**
Write-down/(back) of inventories to net realisable value	**(34)**	**998**	**23**	**(551)**	**7**	**–**	**443**
Capital expenditure*	**314**	**–**	**87**	**11**	**67**	**28,408**	**28,887**

Six months ended 30 June 2012 (Unaudited)	Probiotic supplements	Infant formulas	Dried baby food products	Baby care products	Nutrition supplements	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:							
Sales to external customers	164,461	1,094,732	54,361	32,760	16,428	–	1,362,742
Segment results	125,569	711,414	31,376	14,945	10,292	–	893,596
Reconciliations:							
Interest income							15,784
Other income and unallocated gains							5,849
Corporate and other unallocated expenses							(542,165)
Finance costs							(175)
Profit before tax							372,889
Other segment information:							
Depreciation and amortisation	1,443	990	483	76	343	7,040	10,375
Write-down/(back) of inventories to net realisable value	(57)	36	376	656	75	–	1,086
Capital expenditure*	398	30	20	40	232	19,401	20,121

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	**2,061,481**	1,362,742
Other income and gains		
Interest income	**43,928**	15,784
Foreign exchange gain	**17,283**	–
Gains from investments in principal guaranteed deposits	**–**	5,419
Others	**569**	430
	61,780	21,633

6. FINE ON THE VIOLATION OF ANTI-MONOPOLY LAW

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Fine on the violation of Anti-Monopoly Law	**162,900**	–

As at 30 June 2013, BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, was under an investigation by the National Development and Reform Commission of the People's Republic of China (the "NDRC") in relation to an alleged violation of Article 14 of the Anti-Monopoly Law of the People's Republic of China (the "PRC AML"). On 6 August 2013, the investigation was concluded and Biostime Guangzhou received an Administrative Punishment Decision (the "Decision") issued by the NDRC. According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of the PRC AML by providing fixed prices for its products in its distribution agreements with its distributors, and therefore shall be subject to a fine in the amount of RMB162,900,000 according to Article 46 of the PRC AML. The Group has recorded the fine in the interim condensed consolidated financial statements for the six months ended 30 June 2013.

7. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**3,573**	175

8. INCOME TAX

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – Charge for the period		
Mainland China	**206,908**	121,107
Hong Kong	**4,217**	–
Deferred	**(14,638)**	(22,144)
Total tax charge for the period	**196,487**	98,963

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

Hong Kong profits tax

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

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 was subject to EIT at reduced rates of 11%, 12% and 12.5% for the years ended 31 December 2010, 2011 and 2012, respectively. Biostime Health is subjected to EIT at the rate of 25% for the year ending 31 December 2013.

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 2013 and 2012.

9. DIVIDENDS

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Dividends on ordinary shares declared and paid during the period:		
Final dividend for 2012 – HK$0.39 (2011: HK$0.27) per ordinary share	**188,897**	131,125
Special dividend for 2012 – HK$0.46 (2011: HK$0.33) per ordinary share	**222,803**	160,265
	411,700	291,390
Dividends on ordinary shares declared after the interim reporting date:		
Interim dividend – HK$0.25 (2012: HK$0.23) per ordinary share	**119,481**	112,593
Special dividend – HK$0.19 (2012: nil) per ordinary share	**90,806**	–
	210,287	112,593

Note: The 2013 interim and special dividends on ordinary shares of RMB210,287,000 is calculated after the elimination of RMB555,000 for shares held for the Share Award Scheme.

On 20 August 2013, the board of directors declared an interim dividend of HK$0.25 per ordinary share and a special dividend of HK$0.19 per ordinary share. As the interim and special dividends on ordinary shares were declared after the interim reporting date, such dividends were not recognised as liabilities as at 30 June 2013.

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

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

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the parent used in the basic earnings per share calculation	**297,507**	273,926
	Number of Shares	
Shares		
Weighted average number of ordinary shares in issue	**602,294,000**	602,294,000
Weighted average number of shares purchased for the Share Award Scheme	**(3,176,569)**	(2,948,995)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**599,117,431**	599,345,005
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**13,898,917**	12,180,396
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**613,016,348**	611,525,401

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

11. INVENTORIES

	30 June 2013 *RMB'000* **(Unaudited)**	31 December 2012 *RMB'000* (Audited)
Raw materials	**174,307**	185,647
Raw materials in transit	**417,107**	277,425
Work in progress	**5,129**	2,486
Finished goods	**165,462**	57,709
	762,005	523,267

12. TRADE AND BILLS RECEIVABLES

	30 June 2013 *RMB'000* **(Unaudited)**	31 December 2012 *RMB'000* (Audited)
Trade receivables	**4**	272
Bills receivable	**4,385**	100
	4,389	372

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 2013, based on the invoice date, is as follows:

	30 June 2013 *RMB'000* **(Unaudited)**	31 December 2012 *RMB'000* (Audited)
Within 1 month	**3,802**	150
1 to 3 months	**585**	134
Over 3 months	**2**	88
	4,389	372

The above aged analysis included bills receivable balance of RMB4,385,000 (31 December 2012: RMB100,000).

13. LOANS RECEIVABLE

	30 June 2013	31 December 2012
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current portion of loans receivable	**19,002**	12,597
Loans receivable due after one year	**90,984**	110,484
	109,986	123,081

	Effective interest rate	Maturity	*RMB'000* (Unaudited)	*RMB'000* (Audited)
Denominated in United States dollars (the "USD")	3.00%	By instalments before December 2018	29,109	33,942
Denominated in Danish krones (the "DKK")	DKK CIBOR rate +1%	By instalments before January 2017	80,877	89,139
Total loans receivable			109,986	123,081

Loans receivable represent the loans provided to suppliers for the purpose of financing suppliers' production capacity to fulfill the purchase requirement of the Group. The carrying amounts of the current portion and non-current portion of loans receivable approximate to their fair values.

The loan receivable denominated in USD is convertible at the option of the holder 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 the acquisition date and 30 June 2013 was RMB4,518,000 and RMB4,001,000, respectively (note 14).

14. DERIVATIVE FINANCIAL INSTRUMENT

	30 June 2013	31 December 2012
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Conversion option embedded in a loan receivable	**4,001**	–

The Group has provided a loan with convertible option to a supplier, as further detailed in note 13 to the interim condensed consolidated financial statements. The Group has classified the conversion option element as a derivative financial instrument. The fair value of the conversion option at the acquisition date and 30 June 2013 was RMB4,518,000 and RMB4,001,000, respectively. The Group recorded an unrealised loss of RMB517,000. The Binomial Tree Model is used for valuation of the conversion option element of the convertible loan receivable. The fair value was estimated by considering the key assumptions as follows:

	30 June 2013
Volatility	27%
Risk-free rate	1.41%
Risky discount rate	8.04%

15. TRADE AND BILLS PAYABLES

	30 June 2013	31 December 2012
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**279,767**	262,170
Bills payables	**7,597**	948
	287,364	263,118

An aged analysis of the trade and bills payables as at 30 June 2013, based on the invoice date, is as follows:

	30 June 2013	31 December 2012
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**280,373**	244,842
1 to 3 months	**3,669**	17,847
Over 3 months	**3,322**	429
	287,364	263,118

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

16. OTHER PAYABLES AND ACCRUALS

	30 June 2013 *RMB'000* **(Unaudited)**	31 December 2012 *RMB'000* (Audited)
Advances from customers	**60,370**	25,233
Salaries and welfare payables	**137,378**	80,099
Accruals	**185,033**	198,257
Other tax payables	**44,462**	90,095
Deferred income	**121,369**	33,381
Other payables *	**178,602**	16,752
	727,214	443,817

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

* Included in the balance as at 30 June 2013 is an accrual for the fine of RMB162,900,000 on the violation of the PRC AML by a wholly owned subsidiary of the Group pursuant to the Decision issued by the NDRC (note 6).

BUSINESS REVIEW

Leveraging its high market reputation and established leading market position, the Group continued to deliver strong results with growing revenue and profitability. For the six months ended 30 June 2013, the Group recorded revenue of RMB2,061.5 million, achieving a growth rate of 51.3% as compared with the same period last year. Profit for the period ended 30 June 2013 amounted to RMB297.5 million, increasing by 8.6% from the same period last year. Excluding the one-off fine of RMB162.9 million imposed by the National Development and Reform Commission (the "NDRC") of the People's Republic of China (the "PRC"), core profit for the period ended 30 June 2013 amounted to RMB460.4 million, representing a strong growth of 68.1% as compared with the same period last year.

The Group devoted to providing high-end pediatric nutritional and baby care products in China, with high quality premium infant formulas. For the six months ended 30 June 2013, revenue of infant formulas reached RMB1,682.2 million at a strong growth of 53.7% as compared with the same period last year, accounting for 81.6% of the Group's total revenue. Both high-tier and supreme-tier infant formulas reported strong growth, and respectively increased by 64.4% and 40.3% over the same period last year. Thanks to the Group's unique member database marketing strategies, the Group sustained remarkable growth and further strengthened its position in the high-tier segment of infant formulas market, despite intensified competition in China. Revenue contribution from high-tier infant formulas increased to 59.3% of the total infant formulas revenue for the six months ended 30 June 2013, rising from 55.4% for the six months ended 30 June 2012. The Group will continue to grow in both the supreme-tier and high-tier infant formulas.

Probiotic supplements remained as the second biggest business segment of the Group. During the period ended 30 June 2013, the Group launched its premium food-class probiotic product – Biostime Probiotics Powder for Children, which was a new driver for the sales growth of probiotic supplements. With this new product, the Group increased distribution rate of the probiotic category and fulfilled the diversified needs of high-end consumers. Revenue of probiotic supplements increased by 38.8% to RMB228.3 million for the six months ended 30 June 2013 from RMB164.5 million for the six months ended 30 June 2012, accounting for 11.1% of the Group's total revenue.

Baby care products, under the BMcare™ brand, achieved revenue of RMB63.4 million for the six months ended 30 June 2013, rapidly growing by 93.7% from RMB32.8 million for the six months ended 30 June 2012.

Mama100 Membership Platform continued to play a critical role in the Group's success. During the period, the Group continued to enhance cross-selling and database marketing through this integrated database marketing platform. As at 30 June 2013, the number of Mama100 active members increased to 1,730,427, representing an increase of 46.7% compared with 30 June 2012. For the six months ended 30 June 2013, sales generated by Mama100 active members contributed to about 90.6% of the Group's total revenue, calculated by the membership points.

By the end of the first half of 2013, the Group registered increases in the number of VIP baby specialty stores to 11,402, retail sales organizations to 4,382 and Mama100 Members' Zones in pharmacies to 822, representing increase rates of 37.0%, 31.4% and 36.8%, respectively, as compared with 30 June 2012. Through its sophisticated real-time distribution management system, the Group kept tracking the inventory and logistic of its products at the distributors' level to avoid channel conflict and stuffing.

In light of the Group's strategy to provide high quality premium infant formulas in China, the Group strengthened the cooperation with its upstream suppliers to ensure sufficient and stable supply of high quality products and to continually upgrade its infant formula process technology and innovative formulas. In March 2013, the Group signed a renewed infant formulas manufacturing agreement with La Laiterie de Montaigu, a renowned French dairy manufacturer, for a term of three years from 1 January 2014 to 31 December 2016. In July 2013, the Group signed a framework agreement with Isigny Sainte Mère ("ISM"), a renowned French dairy manufacturer, regarding the Group's equity investment in and financing to ISM to enlarge ISM's production capacity of infant formulas and further enhance long term and stable supply of high quality infant formulas to the Group.

In June 2013, the NDRC of the PRC conducted an anti-monopoly investigation into BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company. In response to the investigation, the Group immediately amended relevant terms in relation to fixed prices and price floors in the previous distribution agreements so as to comply with the Anti-Monopoly Law of the PRC and arranged re-signing of distribution agreements. In addition, the Group carried out a series of consumer rewards activities, in which consumers of infant formulas products are rewarded with additional 50% of accumulation points since 10 July 2013. In order to deepen the rewarding to consumers of the Group's products and further enhance its business partners' confidence, the Group lowered the ex-factory prices and suggested retail prices of its 10 unit products of infant formulas products, with effect from 27 July 2013. The Group believes these activities will bring an increase in sales volume, which will partially offset the impact on revenue resulting from lower ex-factory prices.

PROSPECTS

In the first half of 2013, the Group has cooperated with third party payment platform to install its payment system into Mama100 points POS machine, enabling members to settle payment via debit/credit cards and accumulate or redeem points on the same POS machine. The Group was also building up an Online-to-Offline business model by integrating online ordering platform and offline logistic resource of retail outlets. Looking forward to the second half of 2013, the Group will accelerate the mobile software upgrade to enable its members to place orders and settle the payment directly on the mobile application.

In order to satisfy the diversified high-end consumers' needs in selecting infant formulas, the Group will launch a new infant formula brand – *Adimil* in the second half of 2013 for the premium market segment. The new brand will focus on nutrition enhancement and supplement to the Group's existing infant formulas product portfolio.

RESULTS OF OPERATION

Revenue

The Group's revenue increased by 51.3% to RMB2,061.5 million for the six months ended 30 June 2013 from RMB1,362.7 million for the six months ended 30 June 2012. This was mainly attributable to the continuous strong growth of sales generated from infant formulas. The following table sets forth the Group's revenue by product segment for the periods indicated:

	Six months ended 30 June		
	2013	2012	% of growth
	RMB'000	*RMB'000*	
Probiotic supplements	**228,306**	164,461	38.8%
Infant formulas	**1,682,183**	1,094,732	53.7%
Dried baby food products	**61,397**	54,361	12.9%
Baby care products	**63,442**	32,760	93.7%
Nutrition supplements	**26,153**	16,428	59.2%
Total	**2,061,481**	1,362,742	51.3%

Probiotic supplements

Revenue of probiotic supplements increased by 38.8% to RMB228.3 million for the six months ended 30 June 2013 from RMB164.5 million for the six months ended 30 June 2012. The increase was mainly attributable to the newly launched premium food-class probiotic product – Biostime Probiotics Powder for Children in 2013, which was a new driver for the sales growth. The increase also represented the increase in sales volume driven by a range of marketing support activities.

Infant formulas

Revenue of infant formulas increased by 53.7% to RMB1,682.2 million for the six months ended 30 June 2013 from RMB1,094.7 million for the six months ended 30 June 2012. The increase was primarily due to the increase in sales volume driven by the increased Mama100 active members and the ever-growing market reputation. For the six months ended 30 June 2013, the revenue of high-tier and supreme-tier infant formulas increased by 64.4% and 40.3%, respectively, as compared with the same period last year. The revenue from high-tier infant formulas accounted for 59.3% of the total infant formulas revenue for the six months ended 30 June 2013, representing an increase from 55.4% for the six months ended 30 June 2012. The Group will continue to grow in both the supreme-tier and high-tier infant formulas.

Dried baby food products

Revenue of dried baby food products increased by 12.9% to RMB61.4 million for the six months ended 30 June 2013 from RMB54.4 million for the six months ended 30 June 2012. The increase was primarily due to the continuous increased sales volumes.

Baby care products

Thanks to the newly launched BMcare Essential & Natural series in October 2012, revenue of baby care products increased by 93.7% to RMB63.4 million for the six months ended 30 June 2013 from RMB32.8 million for the six months ended 30 June 2012. The increase was also attributable to the precise database marketing and cross-selling strategy.

Nutrition supplements

Revenue of nutrition supplements increased by 59.2% to RMB26.2 million for the six months ended 30 June 2013 from RMB16.4 million for the six months ended 30 June 2012. The nutrition supplements was an important segment for expanding the Group's product portfolio.

Gross profit and gross profit margin

For the six months ended 30 June 2013, gross profit increased by 53.3% to RMB1,369.6 million from RMB893.6 million for the six months ended 30 June 2012. The gross profit margin increased by 0.8 percentage points to 66.4% for the six months ended 30 June 2013 from 65.6% for the six months ended 30 June 2012. The increase in gross profit margin was mainly due to the impact of product mix, scale economy and the improved operational efficiency and effective cost control.

Other income and gains

Other income and gains for the six months ended 30 June 2013 amounted to RMB61.8 million, primarily consisting of the interest income of RMB43.9 million, net foreign exchange gain of RMB17.3 million and others. Other income and gains increased by 185.6% for the six months ended 30 June 2013 as compared with the same period last year. The increase was mainly due to the increase in interest income and the net foreign exchange gain for the six months ended 30 June 2013 instead of the net foreign exchange loss for the six months ended 30 June 2012.

Selling and distribution costs

During the period ended 30 June 2013, the Group continued motivating its sales team, investing in consumer communication and brand building. Selling and distribution costs for the six months ended 30 June 2013 amounted to RMB667.2 million, representing an increase of 40.4% from the same period last year, which was mainly due to the increase in promotional and advertising expenses, performance-based bonus and office expenses. Selling and distribution costs as a percentage of revenue decreased from 34.9% for the six months ended 30 June 2012 to 32.4% for the comparable period of 2013, resulting from the effective implementation of database marketing activities through Mama100 Membership Program.

Administrative expenses

Administrative expenses for the six months ended 30 June 2013 amounted to RMB78.8 million, increasing by 58.1% as compared with the six months ended 30 June 2012. The increase was in line with the business growth. Administrative expenses as a percentage of revenue increased slightly from 3.7% for the six months ended 30 June 2012 to 3.8% for the six months ended 30 June 2013.

Other expenses

Other expenses for the six months ended 30 June 2013 amounted to RMB24.9 million, primarily consisting of R&D expenses of RMB19.1 million and others. During the period ended 30 June 2013, the Group continued its joint development strategy with European infant formula suppliers to provide Chinese consumers with safe and premium infant formulas. R&D expenses as a percentage of revenue increased from 0.6% for the six months ended 30 June 2012 to 0.9% for the six months ended 30 June 2013.

Fine on the violation of Anti-Monopoly Law

In June 2013, Biostime Guangzhou, a wholly-owned subsidiary of the Company, was under an investigation by the NDRC in relation to an alleged violation of Article 14 of the Anti-Monopoly Law of the PRC (the "PRC AML"). On 6 August 2013, the investigation was concluded and Biostime Guangzhou received an Administrative Punishment Decision (the "Decision") issued by the NDRC. According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of PRC AML by providing fixed prices for its products in its distribution agreements with its distributors, and therefore shall be subject to a fine in the amount of RMB162.9 million according to Article 46 of the PRC AML. The Group has recorded the fine in the interim condensed consolidated financial statements for the six months ended 30 June 2013. The Group shall continue to improve its internal control system to ensure that its various business decisions comply with the applicable PRC laws and regulations.

Income tax expenses

The effective income tax rate increased to 39.8% for the six months ended 30 June 2013 from 26.5% for the comparable period last year, mainly owing to (i) the impact of the one-off fine imposed by the NDRC of the PRC by approximately 8.2 percentage points, which was subject to income tax under the existing PRC tax rules; (ii) the increased applicable income tax rate of 25.0% for Biostime (Guangzhou) Health Products Limited, which enjoyed a preferential corporate income tax rate of 12.5% in 2012; and (iii) the increase in withholding taxes resulting from the increased distribution of retained profits of the Company's subsidiaries in Mainland China. In line with the increase in the Group's profit before tax, income tax expense increased by 98.5% to RMB196.5 million for the six months ended 30 June 2013, compared with the same period last year.

Profit for the period

The Group recorded profit for the period ended 30 June 2013 of RMB297.5 million, increasing by 8.6% from RMB273.9 million for the period ended 30 June 2012. Excluding the one-off fine of RMB162.9 million imposed by the NDRC of the PRC, profit for the period ended 30 June 2013 amounted to RMB460.4 million, representing an increase by 68.1% as compared with the same period last year. On the same basis, net profit margin increased by 2.2 percentage points to 22.3% for the six months ended 30 June 2013 from 20.1% for the six months ended 30 June 2012. The increase was mainly resulting from the decrease in selling and distribution costs and administrative expenses as percentages of revenue.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2013, the Group had net cash generated from operating activities of RMB265.7 million, consisting of cash generated from operations of RMB572.7 million, partially offset by income tax paid of RMB307.0 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB496.0 million before working capital adjustments and net positive changes in working capital of RMB76.7 million.

Investing activities

For the six months ended 30 June 2013, net cash inflows from investing activities amounted to RMB324.7 million. Taking no consideration of the net inflow from matured time deposits of RMB329.7 million, the net cash outflow for investing activities amounted to RMB5.0 million, mainly consisting of (i) outflow for construction in progress and purchase of property, plant and equipment of RMB42.2 million; and (ii) partially offset by interest received from the matured time deposits of RMB33.7 million, and repayment received from loan receivables of RMB3.5 million.

Financing activities

For the six months ended 30 June 2013, net cash used in financing activities amounted to RMB314.5 million, primarily reflecting (i) the distribution of final and special dividends for the year ended 31 December 2012 of RMB411.7 million; (ii) the purchase of shares held under the Share Award Scheme of RMB33.9 million; and (iii) partially offset by the net proceeds from bank loans of RMB134.6 million.

Working capital cycle

The Group's cash cycle increased from 89 days for the six months ended 30 June 2012 to 95 days for the six months ended 30 June 2013.

The average turnover days of trade and bills receivables for the six months ended 30 June 2013 and 2012 were nil and 1 day, respectively.

The average turnover days of inventories increased from 126 days for the six months ended 30 June 2012 to 167 days for the six months ended 30 June 2013. The increase in the average turnover days of inventories was mainly due to (i) the stricter quality inspection procedures for imported goods performed by the CIQ(1) under AQSIQ(2); (ii) the new series of infant formulas purchased, which shall be launched in the second half of 2013. Excluding the new series of infant formulas purchased, the average turnover days of inventories for the six months ended 30 June 2013 was around 157 days; and (iii) the increased inventories stored up to satisfy the increasing market demand. Taking no account of the raw materials in transit, the average turnover days of inventories decreased from 108 days for the six months ended 30 June 2012 to 77 days for the six months ended 30 June 2013.

The average turnover days of trade and bills payable increased from 38 days for the six months ended 30 June 2012 to 72 days for the six months ended 30 June 2013. The increase was mainly due to the increased trade payables as at the period end, which was still within the credit terms. The average credit term of suppliers was around 50 days.

Inventories

	30 June 2013	31 December 2012
	RMB'000	*RMB'000*
Raw materials	**174,307**	185,647
Raw materials in transit	**417,107**	277,425
Work in progress	**5,129**	2,486
Finished goods	**165,462**	57,709
Total	**762,005**	523,267

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 the CIQ under AQSIQ.

Cash and bank balances

As at 30 June 2013, the Group held cash and cash equivalents and non-pledged time deposits with original maturity of three months or more when acquired totaling RMB2,567.9 million, and was in a net cash position of RMB2,162.7 million after netting off the short-term bank loans of RMB405.2 million.

Notes:

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

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

Interest-bearing bank loans

As at 30 June 2013, the Group's outstanding interest-bearing bank loans amounted to RMB405.2 million, of which all were repayable within one year. The gearing ratio was 10.7%. The gearing ratio is calculated by dividing total borrowings by total assets.

HUMAN RESOURCES

As at 30 June 2013, the Group had approximately 2,600 employees in Mainland China, Hong Kong and France. In order to support the rapid growth, the Group has been steadily increasing the investment in developing and retaining its right talent, offering competitive compensation, various training and education opportunities. Also, since the Company became a public company, the Group has gradually developed and implemented an incentive system to attract and retain talented staff. Up to 30 June 2013, the Group had totally granted 15,782,130 share options under the Share Option Scheme and granted 5,290,508 shares under the Share Award Scheme.

DIVIDENDS

The Board has resolved to declare an interim dividend of HK$0.25 per ordinary share and a special dividend of HK$0.19 per ordinary share, representing approximately 70.0% of the Group's profit available for distribution for the period ended 30 June 2013. The interim and special dividends will be paid on or about 27 September 2013 to the shareholders whose names appear on the register of members of the Company on 6 September 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 September 2013 to 6 September 2013, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim and special dividends, 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 3 September 2013.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. Except for the deviations from code provisions A.2.1 as disclosed below, the Company has complied with the code provisions contained in the CG Code for the six months ended 30 June 2013.

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 it complies with the CG Code and aligns with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2013.

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

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the six months ended 30 June 2013.

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

AUDIT COMMITTEE

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

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

The Audit Committee has held meetings to discuss the auditing, internal controls and financial reporting matters including the review of the interim results and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2013.

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

During the six months ended 30 June 2013, based on the Company's instructions, the trustee of the Share Award Scheme has purchased a total of 1,412,000 ordinary shares of the Company on the Stock Exchange at a total consideration of about HK$41,895,000.

Save as disclosed above, 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 2013.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is also published on the websites of the Company (www.biostime.com.cn) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2013 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders and available on the above websites in due course.

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

Hong Kong, 20 August 2013

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