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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

	2011 *RMB'000*	2010 *RMB'000*	**% of Change**
Revenue	**2,189,034**	1,233,560	77.5%
Gross profit	**1,456,127**	877,173	66.0%
Profit for the year	**527,351**	265,683	98.5%
Operating profit for the year	**459,151**	265,773	72.8%
Net cash flows from operating activities	**516,212**	381,012	35.5%
Basic earnings per share	**RMB0.88**	RMB0.58	51.7%
Annual dividend per ordinary share	**HK$0.76**	HK$0.20	280.0%
– Paid interim dividend per ordinary share	**HK$0.16**	—	—
– Proposed final dividend per ordinary share	**HK$0.27**	HK$0.20	35.0%
– Proposed special dividend per ordinary share	**HK$0.33**	—	—

For the year ended 31 December 2011, the Group recorded the following:

- Revenue amounted to RMB2,189.0 million, representing an increase of RMB955.4 million or 77.5% from RMB1,233.6 million in 2010.
- Profit for the year amounted to RMB527.4 million, representing an increase of RMB261.7 million or 98.5% from RMB265.7 million in 2010.
- Operating profit for the year amounted to RMB459.2 million, representing an increase of RMB193.4 million or 72.8% from RMB265.8 million in 2010.
- Net cash flows from operating activities amounted to RMB516.2 million, representing an increase of RMB135.2 million or 35.5% from RMB381.0 million in 2010.
- Basic earnings per share increased from RMB0.58 in 2010 to RMB0.88, representing an increase of 51.7%.
- The Board of Directors has recommended the payment of a final dividend of HK$0.27 per ordinary share and a special dividend of HK$0.33 per ordinary share for the year ended 31 December 2011. Taking into account the interim dividend of HK$0.16 per ordinary share paid in September 2011, the annual dividend for the year ended 31 December 2011 will amount to HK$0.76 per ordinary share, accounting for approximately 70.0% of profit for the year ended 31 December 2011.

The board (the "Board") of directors (the "Directors") of Biostime International Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2011, together with the comparative figures for the corresponding period in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	**2011** *RMB'000*	2010 *RMB'000*
REVENUE	*3*	**2,189,034**	1,233,560
Cost of sales		**(732,907)**	(356,387)
Gross profit		**1,456,127**	877,173
Other income and gains	*3*	**71,751**	4,353
Selling and distribution costs		**(708,604)**	(449,453)
Administrative expenses		**(82,041)**	(87,640)
Other expenses		**(23,326)**	(10,370)
PROFIT BEFORE TAX	*4*	**713,907**	334,063
Income tax expense	*5*	**(186,556)**	(68,380)
PROFIT FOR THE YEAR		**527,351**	265,683
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(55,898)**	(8,151)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**471,453**	257,532
Profit attributable to owners of the parent		**527,351**	265,683
Total comprehensive income attributable to owners of the parent		**471,453**	257,532
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*7*		
Basic		**0.88**	0.58
Diluted		**0.86**	0.58

Details of dividends paid and proposed for the year are disclosed in note 6.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	**2011** **RMB'000**	2010 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**59,420**	31,280
Intangible assets		**1,423**	1,168
Deposits		**30,461**	1,640
Time deposits		**160,000**	—
Deferred tax assets		**36,397**	5,769
Total non-current assets		**287,701**	39,857
CURRENT ASSETS			
Inventories	*8*	**297,387**	106,098
Trade and bills receivables	*9*	**9,721**	5,211
Prepayments, deposits and other receivables		**29,156**	22,622
Cash and cash equivalents		**1,814,101**	1,728,211
Total current assets		**2,150,365**	1,862,142
CURRENT LIABILITIES			
Trade payables	*10*	**67,200**	65,833
Other payables and accruals		**265,145**	142,344
Tax payable		**82,709**	28,170
Total current liabilities		**415,054**	236,347
NET CURRENT ASSETS		**1,735,311**	1,625,795
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,023,012**	1,665,652
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**45,452**	5,760
Net assets		**1,977,560**	1,659,892
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*11*	**5,161**	5,141
Reserves		**1,678,987**	1,553,354
Proposed dividends	*6*	**293,412**	101,397
Total equity		**1,977,560**	1,659,892

NOTES TO FINANCIAL STATEMENTS

31 December 2011

1.1 BASIS OF PREPARATION

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

These financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

1.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's 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*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

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

2. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

During the years ended 31 December 2011 and 2010, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Operating segment information for the year ended 31 December 2011

Year ended 31 December 2011	**Probiotic supplements** *RMB'000*	**Infant formulas** *RMB'000*	**Dried baby food products** *RMB'000*	**Baby care products** *RMB'000*	**Nutrition supplements** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Segment revenue:							
Sales to external customers	**331,962**	**1,684,655**	**97,126**	**47,845**	**27,446**	**—**	**2,189,034**
Segment results	**258,321**	**1,103,626**	**55,652**	**19,232**	**19,296**	**—**	**1,456,127**
Reconciliations:							
Interest income							**17,289**
Other income and unallocated gains							**54,462**
Corporate and other unallocated expenses							**(813,971)**
Profit before tax							**713,907**
Other segment information:							
Depreciation and amortisation	**2,792**	**757**	**825**	**56**	**342**	**8,209**	**12,981**
Write-down of inventories to net realisable value	**126**	**38**	**280**	**503**	**—**	**—**	**947**
Capital expenditure*	**248**	**1,099**	**171**	**187**	**450**	**39,599**	**41,754**

Operating segment information for the year ended 31 December 2010

Year ended 31 December 2010	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	303,749	793,565	97,779	38,467	—	—	1,233,560
Segment results	248,724	542,598	64,448	21,403	—	—	877,173
Reconciliations:							
Interest income							2,224
Other income and unallocated gains							2,129
Corporate and other unallocated expenses							(547,463)
Profit before tax							334,063
Other segment information:							
Depreciation and amortisation	1,279	163	350	13	—	5,257	7,062
Write-back of impairment of trade receivables	(62)	—	—	—	—	—	(62)
Write-down of inventories to net realisable value	—	—	369	—	—	—	369
Capital expenditure*	331	428	106	99	—	15,812	16,776

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

3. REVENUE, OTHER INCOME AND GAINS

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

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

	2011	2010
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**2,189,034**	1,233,560
Other income and gains		
Bank interest income	**17,289**	2,224
Foreign exchange gain	**52,784**	—
Others	**1,678**	2,129
	71,751	4,353

4. PROFIT BEFORE TAX

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

	2011	2010
	RMB'000	*RMB'000*
Cost of inventories sold	**731,960**	356,018
Depreciation	**12,848**	6,827
Amortisation of intangible assets	**133**	235
Research and development costs*	**19,775**	5,927
Loss on disposal of items of property, plant and equipment	**122**	88
Minimum lease payments under operating leases in respect of buildings	**23,085**	6,791
Auditors' remuneration	**2,050**	1,270
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	**218,979**	130,925
Pension scheme contributions (defined contribution schemes)	**31,867**	16,916
Staff welfare and other expenses	**12,139**	6,287
Equity-settled share option expense	**5,721**	2,649
	268,706	156,777
Write-back of impairment of trade receivables*	**—**	(62)
Write-down of inventories to net realisable value#	**947**	369

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

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

5. INCOME TAX

	2011	2010
	RMB'000	*RMB'000*
Group:		
Current — Charge for the year		
Mainland China	**177,451**	62,793
France	**41**	—
Deferred	**9,064**	5,587
Total tax charge for the year	**186,556**	68,380

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

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil).

PRC enterprise income tax ("EIT")

Pursuant to the PRC Enterprise Income Tax Law and the respective regulations, except for the preferential tax treatment available to Biostime (Guangzhou) Health Products Limited (the "Biostime Health"), the subsidiaries of the Group which operate in Mainland China are subject to EIT at a rate of 25% on their respective taxable income for the years ended 31 December 2011 and 2010.

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% and 12% for the years ended 31 December 2010 and 2011, respectively, and 12.5% for the year ending 31 December 2012.

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

	2011	2010
	RMB'000	*RMB'000*
Group:		
Profit before tax	**713,907**	334,063
Tax at the applicable PRC enterprise income tax rate	**178,477**	83,516
Overseas tax differential	**(3,013)**	—
Effect of tax concession for Biostime Health	**(24,799)**	(27,725)
Income not subject to tax	**(9,500)**	—
Expenses not deductible for tax	**5,699**	37
Effect of a lower enacted tax rate used for the recognition of deferred tax	**—**	4
Tax losses not recognised	**—**	6,788
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**39,692**	5,760
Tax charge at the Group's effective rate	**186,556**	68,380

6. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Interim — HK$0.16 (2010: Nil) per ordinary share	**79,057**	—
Proposed final — HK$0.27 (2010: HK$0.20) per ordinary share	**132,035**	101,397
Proposed special — HK$0.33 (2010: Nil) per ordinary share	**161,377**	—
	372,469	101,397

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The dividends paid by the Company's subsidiaries to the then shareholder before the listing of the Company were as follows:

	2011	2010
	RMB'000	*RMB'000*
Dividends declared	**—**	145,956

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 602,231,151 (2010: 456,164,384) in issue during the year as if the group reorganisation (the "Reorganisation") had been effective since 1 January 2010.

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

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

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**527,351**	265,683

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**602,231,151**	456,164,384
Effect of dilution — weighted average number of ordinary shares:		
Share options	**8,312,670**	327,500
Over-allotment options	**—**	924,657
	610,543,821	457,416,541

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2011 includes the weighted average of 2,294,000 shares issued on 11 January 2011 pursuant to the exercise of the over-allotment options, namely 2,231,151 shares, and 600,000,000 shares issued and fully paid immediately after the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 December 2010 (the "Listing Date").

8. INVENTORIES

	2011	2010
	RMB'000	*RMB'000*
Raw materials	**253,152**	82,250
Work in progress	**1,175**	6,483
Finished goods	**43,060**	17,365
	297,387	106,098

9. TRADE AND BILLS RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**1,380**	549
Bills receivable	**8,341**	4,662
Less: Impairment provision	**—**	—
	9,721	5,211

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

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

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

	2011	2010
	RMB'000	*RMB'000*
Within 1 month	**4,815**	1,075
1 to 3 months	**3,202**	2,503
Over 3 months	**1,704**	1,633
	9,721	5,211

The above aged analysis included the bills receivable balance of RMB8,341,000 (2010: RMB4,662,000).

10. TRADE PAYABLES

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

	2011	2010
	RMB'000	*RMB'000*
Within 1 month	**51,222**	40,090
1 to 3 months	**15,682**	23,165
Over 3 months	**296**	2,578
	67,200	65,833

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

11. SHARE CAPITAL

Shares

	2011	2010
Authorised:		
10,000,000,000 (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 (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 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).

The above movement in the Company's issued share capital is as follows:

	Number of shares in issued	Issued capital *RMB'000*	Share premium account *RMB'000*	Total *RMB'000*
On 30 April 2010 (date of incorporation)	1	—	—	—
Issuance of new shares for the Reorganisation	449,999,999	3,856	—	3,856
Issuance of new shares for the initial public offering	150,000,000	1,285	1,411,676	1,412,961
Share issue expenses	—	—	(43,561)	(43,561)
Proposed final 2010 dividend	—	—	(101,397)	(101,397)
At 31 December 2010 and 1 January 2011	600,000,000	5,141	1,266,718	1,271,859
Issuance of new shares upon exercise of the over-allotment options	2,294,000	20	21,467	21,487
Share issue expenses	—	—	(539)	(539)
Interim 2011 dividend	—	—	(79,057)	(79,057)
Proposed final 2011 dividend	—	—	(130,540)	(130,540)
Proposed special 2011 dividend	—	—	(159,549)	(159,549)
At 31 December 2011	602,294,000	5,161	918,500	923,661

BUSINESS REVIEW

As a premium provider of high-end pediatric nutritional and baby care products in China, the Group has been active in the development, marketing and sales of premium products for babies in China which are increasingly popular among mother consumers. Thanks to the booming baby products market in China supported by solid demand from Chinese mothers for various baby products, the Group recorded a consistent and rapid growth of its revenue at a CAGR of 94.7% from 2008 to 2010. In 2011, the Group continued to keep this momentum and delivered another year of notably high revenue and net profit, generating a total revenue of RMB2,189.0 million with net profit of RMB527.4 million, increasing by 77.5% and 98.5%, respectively as compared with 2010.

During the year 2011, the sales revenue of infant formulas business sustained a strong growth of 112.3%, contributing to 77.0% of the Group's total revenue. According to China's Infant Formulas Market Report For The First Half of 2011 prepared by *The Nielsen Company*, within the supreme-tier segment(1) of China's infant formulas industry, Biostime was the first player by sales with the largest market share of approximately 44.0% in the first half of 2011, while within the high-tier segment(2) the Group's market share accounted for 7.4% in the first half of 2011, ranking at the sixth place. Leveraging its established market position, the Group believes it will continue to sustain strong growth in both the supreme-tier and high-tier infant formulas segments.

In September 2011, the Group entered into its nutrition supplements category by introducing to the Chinese market two new series of products, milk calcium chewable tablets and DHA chews/soft capsules for children and mothers. These new products have received an immediate positive feedback from the market, by achieving RMB27.5 million sales revenue from September to December 2011 and accounting for 1.2% of the Group's total revenue. This new segment has further helped to diversify the Group's product portfolio and extended the consumer lifecycle.

To further enhance its brand recognition, the Group consistently invested in advertising its quality products on the internet, magazines and 31 TV channels including provincial and China Central Television ("CCTV") channels in 2011. The Group also launched a series of market education events in 2011 through professional parenting magazines. It also leveraged emerging media channels to increase brand awareness.

Mama100 Membership Platform continued to play an important role in the Group's achievements. By the end of 2011, the number of Mama100 active members and member retail outlets the Group covered increased to 825,230 and 10,240 respectively, up 77.3% and 79.5% as compared with 2010, and the sales generated by Mama100 active members contributed to about 78.0% of the Group's total revenue. Mama100 Membership Platform will continue to enhance cross-selling and support a series of database marketing activities through real-time distribution management system and point accumulation system, enabling the Group to achieve higher sales and promotion efficiency.

Notes:

(1) Refers to infant formulas with retail prices over RMB300 per can of 900g

(2) Refers to infant formulas with retail prices between RMB200 and RMB300 per can of 900g

To facilitate the expansion of sales and distribution channels, the Group increased the number of its sales offices in Mainland China from 62 to 87 and kept providing extensive training to its sales team in order to support the expansion of its business all across China. By the end of the year 2011, the number of VIP specialty stores that the Group covered had grown up to 6,727 by 82.5%, while that of Mama100 Member's Zones in pharmacies up to 545 by 81.1% and that of supermarkets up to 2,968 by 73.0%, as compared with 2010. Despite the rapid expansion of the sales channels and retail outlets, through a sophisticated real-time distribution management system, the Group has maintained close monitoring of the inventories and sales of its products at the distributors' level to control retail prices, avoid channel conflict and stuffing, enabling the Group to maintain sustainable business growth.

In 2011, the Group deepened the collaboration with its existing infant formulas supplier in the field of quality control and supply. Meanwhile, the Group jointly developed and conducted product trials with other European infant formulas manufacturers to consolidate its supply capacity and fulfill an increasing market demand. Commencing in December 2011, a new infant formulas supplier started producing infant formulas for the Group. This additional supply source will enable the Group to ensure a sustainable, stable and qualitative supply of its infant formulas powders.

While developing its procurement capacity and diversifying infant formulas suppliers, the Group remained to focus on maintaining the highest quality standards by only using full-formulation spray drying technique and placing quality safety of its products in first priority by multilayer quality control and assurance. All the imported finished products and key raw ingredients sourced by the Group must pass through four stringent control levels: quality control by suppliers, quality check by foreign authorities, inspections by PRC authorities and quality control conducted by the Group. In 2011, the Group also set up a new Global Quality Department, reinforcing the Group's ability to conduct stringent quality control and assurance for all its products. The Group also enhanced its R&D capabilities by collaborating with third-party research organizations to conduct joint research and clinical studies.

Talented people are critical to the Group's continuous growth. In order to support this rapid growth, the Group has been steadily increasing the investment (up 258.9% year-on-year) towards its employees, offering various training and educational opportunities. Also since the Listing Date, the Group has gradually developed and implemented an incentive system to attract and retain talented people. In 2011, on top of the existing Pre-IPO Share Option Scheme and the Share Option Scheme, the Group adopted a Share Award Scheme on 28 November 2011.

In conclusion, the Board believes the Group's ability to drive and sustain its growth is attributed to its unique business model combined with a series of key growth drivers:

- A strong brand, promoting the success of high-quality products and market development;
- A strengthened and sophisticated Mama100 Membership Program with innovative database marketing strategies;
- An effective multi-sales channel and real-time distribution management system;
- High quality products and a consumer-oriented product development;

- A stringent quality assurance and control program; and
- A continuous organization development with sales distribution expansion.

PROSPECTS

Looking forward into 2012, the year of Dragon, the Group expects an upward trend in the birthrate of China and is therefore confident to further capture tremendous opportunities in China's fast growing market of premium pediatric nutrition and baby care products.

The Group will further strengthen its brand recognition among consumers and its advertising expenses are expected to increase. Besides keeping a large advertising coverage through 31 provincial TV channels and CCTV, the Group will also cooperate with a renowned satellite TV channel to develop a parenting and baby-nursing program, providing mothers with comprehensive solutions in nurturing their babies. On the other hand, in order to answer the rising needs for information of the new generation of parents, the Group will increase its advertising investment on internet media and enhance its mobile application platform.

The Group will continue to increase penetration into tier-3 cities by consolidating distribution channels which consists of baby specialty stores, supermarkets and pharmacies. To further develop its distribution channels, the Group aims to cover 8,500 VIP baby specialty stores 1,000 Mama100 Member's Zones in pharmacies, and 4,000 supermarkets by the end of 2012. The Group intends to develop new Mama100 members while maintaining existing high-end membership base, targeting to own about 1.5 million Mama100 active members in three years.

The Group continues to focus on the stability and quality of its existing upstream supply, especially for its largest product category, infant formulas. In 2012, the Group will continue to carry on trial-runs and negotiation with other upstream manufacturers for potential cooperation to ensure long-term capacity of its infant formulas series.

In February 2012, the Group opened a new laboratory facility in France, dedicated to the quality control of its infant formulas powders produced in Europe. In the future, the Group will expand the scope of this laboratory to the quality control of other nutrition and baby care products. At the same time, the Group will conduct joint research programs with leading dairy research organizations in Europe.

To fulfill the diversified needs of high-end consumers, the Group will look for opportunities to diversify the portfolio of its quality pediatric nutritional and baby care products, therefore extending consumer lifecycle. The Group will launch new initiatives to target children aged 3–7 years in 2012.

CHALLENGES

The global inflation will probably cause rising costs of raw materials, which imposes a challenge on the Group. The Group is exposed to certain foreign exchange impacts because the majority of its products and raw materials are imported from Europe and the USA. The Group will further strengthen its supply chain management, increase operation efficiency and leverage economies of scale in order to minimize the fluctuation and maintain profitability.

Alongside with the consumption upgrade in China's consumer market, we expect the entry of new competitors in the high-end pediatric nutritional and baby care market. The Group still believes that its existing high-end brand equity, stringent quality control of its products, as well as its unique business model, especially the database marketing strategy, are its core competence and will thus help maintain our competitive edge.

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF 2011 RESULTS

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

	Year ended 31 December		
	2011	2010	
	RMB'000	*RMB'000*	**% of change**
Revenue	**2,189,034**	1,233,560	**77.5%**
Gross profit	**1,456,127**	877,173	**66.0%**
Selling and distribution costs	**708,604**	449,453	**57.7%**
Administrative expenses	**82,041**	87,640	**(6.4%)**
Profit before tax	**713,907**	334,063	**113.7%**
Profit for the year	**527,351**	265,683	**98.5%**
Operating profit for the year*	**459,151**	265,773	**72.8%**

* Operating profit for the year represented gains or losses from sources related to the typical activities of the business or organization. Operating profit for the year excluded bank interest income and charges, gains or losses from disposal of property or assets, currency exchange, donation and other atypical gains or losses.

The table below sets forth the Group's selected information from the consolidated statements of financial position as of the dates indicated:

	As of 31 December		
	2011	2010	
	RMB'000	*RMB'000*	**% of change**
Non-current assets	**287,701**	39,857	**621.8%**
Current assets	**2,150,365**	1,862,142	**15.5%**
Current liabilities	**415,054**	236,347	**75.6%**
Net current assets	**1,735,311**	1,625,795	**6.7%**
Non-current liabilities	**45,452**	5,760	**689.1%**
Net assets	**1,977,560**	1,659,892	**19.1%**

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

	Year ended 31 December		
	2011	2010	
	RMB'000	*RMB'000*	**% of change**
Cash and cash equivalents at beginning of year	**1,728,211**	133,795	1,191.7%
Net cash flows from operating activities	**516,212**	381,012	35.5%
Net cash flows used in investing activities	**(529,228)**	(9,393)	5,534.3%
Net cash flows from/(used in) financing activities	**(168,846)**	1,230,948	(113.7%)
Effect of foreign exchange rate changes, net	**(55,893)**	(8,151)	585.7%
Cash and cash equivalents at end of year*	**1,490,456**	1,728,211	(13.8%)

* As at 31 December 2011, cash and bank balances and time deposits amounted to RMB1,974.1 million, including cash and bank balances of RMB1,490.5 million and non-pledged time deposits of RMB483.6 million.

RESULTS OF OPERATIONS

Revenue

Revenue increased from RMB1,233.6 million in the year ended 31 December 2010 to RMB2,189.0 million in the year ended 31 December 2011, representing an increase of 77.5%. The revenue growth was led by the infant formulas segment which grew by 112.3% and now accounted for 77% of the Group's total revenue.

The following table sets forth the Group's revenues by product segment for the years indicated:

	Year ended 31 December			
	2011		2010	
	RMB'000	***% of total***	*RMB'000*	*% of total*
Probiotic supplements	**331,962**	15.2%	303,749	24.6%
Infant formulas	**1,684,655**	77.0%	793,565	64.3%
Dried baby food products	**97,126**	4.4%	97,779	8.0%
Baby care products	**47,845**	2.2%	38,467	3.1%
Nutrition supplements	**27,446**	1.2%	—	—
Total	**2,189,034**	100.0%	1,233,560	100.0%

Probiotic supplements

Revenue of probiotic supplements kept a steady growth, and increased by 9.3% from RMB303.7 million in the year ended 31 December 2010 to RMB332.0 million in the year ended 31 December 2011, accounting for 15.2% of the Group's total revenue in 2011.

Infant formulas

Revenue of infant formulas increased significantly by 112.3% from RMB793.6 million in the year ended 31 December 2010 to RMB1,684.7 million in the year ended 31 December 2011, accounting for 77.0% of the Group's total revenue in 2011. The increase in revenue reflected the Group's increased market share in China's infant formulas industry, expansion of sales network, and greater market recognition. Thanks to the newly introduced Biostime Golden Care Infant Formulas launched in May 2010, the revenue of high-tier infant formulas, including Biostime Golden Care Infant Formulas and Biostime Premium Infant Formulas, increased by 129.7% in 2011 compared with 2010. The revenue of supreme-tier infant formulas, including Biostime Supreme Infant Formulas and Biostime Supreme Care Infant Formulas, increased by 99.3% in 2011 compared with 2010.

Dried baby food products

Owing to the new regulations in the PRC regarding the baby cereal series products which came into effect in April 2011, and the new labeling regulations in the PRC regarding the organic series products, the Group took about six months to re-develop the formula and re-design the packages, resulting in the shortage of dried baby food products in some regions. The Group had finished the re-development and re-package in January 2012, and the sales of dried baby food products had returned to normal. Revenue of dried baby food products decreased slightly by 0.7% from RMB97.8 million in the year ended 31 December 2010 to RMB97.1 million in the year ended 31 December 2011.

Baby care products

Revenue of baby care products under the BMcare™ brand increased by 24.4% from RMB38.5 million in the year ended 31 December 2010 to RMB47.8 million in the year ended 31 December 2011, accounting for 2.2% of the Group's total revenue in 2011. The increase was mainly due to the Group's continuous promoting of its BMcare™ brand.

Nutrition supplements

The Group launched nutrition supplements in September 2011 and generated revenue of RMB27.4 million in the year ended 31 December 2011, accounting for 1.2% of the Group's total revenue.

Gross profit and gross profit margin

Gross profit increased by 66.0% from RMB877.2 million in the year ended 31 December 2010 to RMB1,456.1 million in the year ended 31 December 2011, which was in line with the increase in revenue. Gross profit margin decreased from 71.1% in the year ended 31 December 2010 to 66.5% in the year ended 31 December 2011, mainly due to: (i) product mix impact, resulting from the higher revenue contribution from high-tier infant formulas, which has a lower gross profit margin than that of supreme-tier infant formulas, and the increased portion of revenue derived from infant formulas, which has a lower gross profit margin than that of probiotic supplements; (ii) the higher purchase prices of infant formulas charged by the supplier and the increased labour costs of production; (iii) the increased cost of redeemed goods resulting from the higher redemption rate of Mama100 membership points. The redemption rate of Mama100 membership points increased from 76.1% in 2010 to 86.5% in 2011.

Other income and gains

Other income and gains consist of bank interest income, foreign exchange gain and others. Other income and gains increased from RMB4.4 million in the year ended 31 December 2010 to RMB71.8 million in the year ended 31 December 2011, primarily due to the increase of foreign exchange gain derived from the appreciation of the Renminbi against the Hong Kong dollar relating to the Company's bank deposits denominated in Renminbi.

Foreign exchange gain amounted to RMB52.8 million in the year ended 31 December 2011, while a foreign exchange loss of RMB1.3 million was recorded in the year ended 31 December 2010. The Company received proceeds from listing of the Shares of the Company on the Main Board of the Stock Exchange on 17 December 2010 in Hong Kong dollar in December 2010, and then converted the proceeds into Renminbi in January 2011. At the end of the reporting period, the deposits denominated in Renminbi were translated to Hong Kong dollar, the functional currency of the Company, using the closing exchange rate, and the exchange differences shall be recognized in profit or loss in the period in which they arise.

The bank interest income increased by 686.4% from RMB2.2 million in the year ended 31 December 2010 to RMB17.3 million in the year ended 31 December 2011. The Group placed more time deposits in the year ended 31 December 2011 to earn higher return on its idle cash.

Selling and distribution costs

The selling and distribution costs as a percentage of total revenue decreased from 36.4% in 2010 to 32.4% in 2011. The decrease in selling and distribution costs as a percentage of total revenue was primarily due to the effective implementation of database marketing activities through Mama100 Membership Program and sophisticated value chain management, which enable us to effectively lower the new member acquisition cost and enhance members' loyalty. Selling and distribution costs increased by 57.7% from RMB449.5 million in the year ended 31 December 2010 to RMB708.6 million in the year ended 31 December 2011. The increase was primarily due to increase in promotional and advertising expenses, performance-based bonus and office expenses, which were in line with the Group's business growth and increase in sales of products.

Administrative expenses

Attributing to the Group's effective operation management and enhanced economies of scale, administrative expenses as a percentage of revenue decreased from 7.1% in the year ended 31 December 2010 to 3.7% in the year ended 31 December 2011. Administrative expenses decreased by 6.4% from RMB87.6 million in the year ended 31 December 2010 to RMB82.0 million in the year ended 31 December 2011. The decrease was primarily due to (i) the decrease in listing expenses, which was on a one-off basis in 2010 while partially offset by (ii) the increase in office, rental and travelling expenses.

Other expenses

Other expenses increased by 124.0% from RMB10.4 million in the year ended 31 December 2010 to RMB23.3 million in the year ended 31 December 2011, resulting from the increased joint development expenses and trial-run costs with potential infant formulas suppliers in Europe.

Income tax expenses

The effective income tax rate increased from 20.5% in the year ended 31 December 2010 to 26.1% in the year ended 31 December 2011. The increase was mainly due to: (i) the increased deferred tax liabilities for the withholding taxes on distributable earnings of subsidiaries located in the Mainland China; and (ii) the increased portion of profit before tax contributed by BiosTime, Inc. (Guangzhou), which was subject to corporate income tax rate of 25.0%, and the decreased portion of profit before tax contributed by Biostime (Guangzhou) Health Products Limited, which enjoyed a preferential corporate income tax rate of 12.0% in 2011. In line with the increase in the Group's profit before tax, income tax expense increased by 172.8% from RMB68.4 million in the year ended 31 December 2010 to RMB186.6 million in the year ended 31 December 2011.

Operating profit for the year

Operating profit for the year increased by 72.8% from RMB265.8 million in the year ended 31 December 2010 to RMB459.2 million in the year ended 31 December 2011. Operating profit for the year as a percentage of revenue decreased slightly from 21.5% in 2010 to 21.0% in 2011. The decrease in operating profit for the year as a percentage of revenue was mainly due to the decreased gross profit margin and increased effective income tax rate, while partially offset by the decrease in selling and distribution costs and administrative expenses as a percentage of revenue, resulting from the effective implementation of database marketing and operation management.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities

In the year ended 31 December 2011, the Group had net cash flows from operating activities of RMB516.2 million, consisting of cash generated from operations of RMB639.2 million, partially offset by corporate income tax paid of RMB123.0 million. The Group's cash generated from operations consisted of cash flows from operating activities of RMB716.4 million, before working capital adjustments and net negative changes in working capital of RMB77.2 million.

Cash flows used in investing activities

In the year ended 31 December 2011, the Group's net cash flows used in investing activities amounted to RMB529.2 million, after taking consideration of the time deposits of RMB483.6 million. The Group's net cash outflows for investing activities mainly consisted of: (i) purchase of property, plant and equipment and intangible assets of RMB39.2 million, which primarily related to acquisition of computers, POS machines, vehicles and computer software for business use; (ii) purchase of a parcel of land of RMB21.0 million; (iii) increase in balance of time deposits of RMB483.6 million, while partially offset by (iv) interest received of RMB14.3 million.

Working capital cycle

The average turnover days of trade and bills receivables maintained at 1 day in the years ended 31 December 2011 and 2010.

The average turnover days of inventories increased from 96 days in 2010 to 100 days in 2011, primarily because we held more raw materials and finished goods to accommodate the Group's anticipated sales growth, particularly for the infant formulas products.

The average turnover days of trade payables decreased from 54 days in 2010 to 33 days in 2011, which was mainly due to the increased purchase volume of infant formulas which has a shorter credit term than other products.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

The use of the net proceeds from the global offering up to 31 December 2011 was as follows:

	HK$ million
Enhancing and reinforcing the brand recognition and brand image	179.6
Expanding business by cooperating with upstream suppliers	11.6
Expanding and developing the sales distribution network and retail channels	62.1
Investing in research and development and expanding production infrastructure and warehouses	25.3
Upgrading the information technology system	11.3
Working capital and other general corporate purposes	35.3
	325.2

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

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

DIVIDENDS

After taking full consideration of the Group's financial position, net cash flows and capital expenditures, the Board of Directors is glad to recommend the payment of a final dividend of HK$0.27 per ordinary share and a special dividend of HK$0.33 per ordinary share for the year ended 31 December 2011. Taking into account the interim dividend of HK$0.16 per ordinary share in respect of the period ended 30 June 2011 paid in September 2011, the annual dividend for the year ended 31 December 2011 will amount to HK$0.76 per ordinary share, accounting for approximately 70.0% of profit for the year ended 31 December 2011.

Subjected to the approval of shareholders at the forthcoming annual general meeting to be held on 30 April 2012 (the "2012 AGM"), the final dividend and special dividend will be paid on or about 15 May 2012 to the shareholders whose names appear on the register of members of the Company on 9 May 2012.

CONTROLLING SHAREHOLDERS' UNDERTAKINGS

The controlling shareholders of the Company have undertaken to the Company that they shall not, in the period commencing from 17 December 2010 to 16 December 2013, dispose of shares of the Company held by Biostime Pharmaceuticals (China) Limited.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2012 AGM

The register of members of the Company will be closed from 26 April 2012 to 30 April 2012, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2012 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 25 April 2012.

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

The register of members of the Company will be closed from 7 May 2012 to 9 May 2012, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend and special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre,183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 4 May 2012.

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

Except for the allotment and issuance due to the partial exercise of the over-allotment option, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Throughout the year ended 31 December 2011, the Company has complied with the code provisions as set out in the CG Code, 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 they comply with the CG Code and align with the latest developments.

For the purpose of complying with the new code of corporate governance practice as set out in the Appendix 14 of the Listing Rules, which shall take effect from 1 April 2012, the Board has adopted a revised CG Code (the "New CG Code") on 20 March 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

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

The main duties of the Audit Committee included the following:

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

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

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

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

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2011 and the annual results for the year ended 31 December 2011, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 and the Annual Report for the year ended 31 December 2011, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditor. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditor.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the websites of the Company (www.biostime.com.cn) and the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2011 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.

APPRECIATION

On behalf of the Board, I would like to thank all our employees for their efforts, dedication and commitment, all of which contributed to the growth of the Group, as well as our shareholders for their continuous support and confidence in our Group.

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

Hong Kong, 20 March 2012

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