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 2014

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2014	2013	% of Change
	RMB'000	*RMB'000*	
Revenue	**2,188,974**	2,061,481	6.2%
Gross profit	**1,345,601**	1,369,597	(1.8%)
Profit for the period	**312,223**	297,507	4.9%
Basic earnings per share	**RMB0.52**	RMB0.50	4.0%
Interim dividend per ordinary share	**HK$0.26**	HK$0.25	4.0%
Special dividend per ordinary share	**–**	HK$0.19	–

For the six months ended 30 June 2014, the Group recorded the following:

- Revenue amounted to RMB2,189.0 million, representing an increase of RMB127.5 million or 6.2% from RMB2,061.5 million in the corresponding period of 2013.
- Profit for the period amounted to RMB312.2 million, representing an increase of RMB14.7 million or 4.9% from RMB297.5 million in the corresponding period of 2013.
- Basic earnings per share increased from RMB0.50 in the corresponding period of 2013 to RMB0.52, representing an increase of 4.0%.
- On 19 August 2014, the Board determined that an interim dividend of HK$0.26 per ordinary share to be paid on or about 15 September 2014 to the shareholders whose names appear on the register of members of the Company on 8 September 2014.

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 2014, together with the comparative figures for the corresponding period in 2013, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Unaudited)
REVENUE	5	**2,188,974**	2,061,481
Cost of sales		**(843,373)**	(691,884)
Gross profit		**1,345,601**	1,369,597
Other income and gains	5	**53,559**	61,780
Selling and distribution costs		**(800,380)**	(667,220)
Administrative expenses		**(86,059)**	(78,782)
Other expenses		**(38,999)**	(24,908)
Finance costs	6	**(40,346)**	(3,573)
Fine on the violation of Anti-Monopoly Law	7	**–**	(162,900)
Share of profits and losses of an associate	16	**(42)**	–
PROFIT BEFORE TAX		**433,334**	493,994
Income tax expense	9	**(121,111)**	(196,487)
PROFIT FOR THE PERIOD		**312,223**	297,507
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(2,076)**	495
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**310,147**	298,002
Profit attributable to owners of the parent		**312,223**	297,507
Total comprehensive income attributable to owners of the parent		**310,147**	298,002
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11	***RMB***	*RMB*
Basic		**0.52**	0.50
Diluted		**0.51**	0.49

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

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

1. CORPORATE INFORMATION

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

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

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

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

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

(i) exercise an effective financial and operational control over Mama100 E-commerce;

(ii) exercise equity holders' voting rights of Mama100 E-commerce;

(iii) receive substantially all of the economic interest returns generated by Mama100 E-commerce in consideration for the management and consulting services and licenses provided by the Group, and absorb the risk of losses from Mama100 E-commerce;

(iv) obtain an irrevocable and exclusive right to purchase entire equity interest in Mama100 E-commerce from the respective equity holders for a consideration in the amount of RMB10,000, or when appraisal is required under PRC law, 1% of the appraisal price or at the lowest price permitted by then applicable PRC laws and regulations; and

(v) obtain a pledge over the entire equity interest of Mama100 E-commerce from their respective equity holders as collateral security for all of Mama100 E-commerce payments due to the Group and to secure performance of Mama100 E-commerce's obligations under the Contractual Arrangements.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") (which also include International Accounting Standards ("IASs") and Interpretations) and the adoption of accounting policies to account for the investment in an associate and the convertible bonds as disclosed in note 3 below.

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

Investment in an associate

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

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

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

Convertible bonds

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

4. OPERATING SEGMENT INFORMATION

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

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

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

(c) the dried baby food and nutrition supplements segment comprises the production of dried baby food products made from natural foods for infants and young children, microencapsulated milk calcium chewable tablets and DHA chews/soft capsules for children, pregnant and lactating mothers; and

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

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

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

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

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

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

Six months ended 30 June 2013 (Unaudited)	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Dried baby food and nutrition supplements *RMB'000* (Restated)	Baby care products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	1,682,183	228,306	87,550	63,442	–	2,061,481
Segment results	1,104,814	177,619	51,974	35,190	–	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	394	1,098	517	76	10,930	13,015
Write-down/(back) of inventories to net realisable value	998	(34)	30	(551)	–	443
Capital expenditure*	–	314	154	11	28,408	28,887

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

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

6. FINANCE COSTS

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

7. FINE ON THE VIOLATION OF ANTI-MONOPOLY LAW

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

8. PROFIT BEFORE TAX

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

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

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

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

9. INCOME TAX

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

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

Hong Kong profits tax

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

PRC enterprise income tax

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

France corporate income tax

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

10. DIVIDENDS

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

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

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

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

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

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

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

12. GOODWILL

	30 June 2014 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Restated)
Cost:		
At 1 January	**76,000**	–
Acquisition of a subsidiary *(note 22)*	**–**	76,000
At period/year end	**76,000**	76,000
Accumulated impairment:		
At period/year end	**–**	–
Net carrying amount:		
At period/year end	**76,000**	76,000

13. INTANGIBLE ASSETS

	Computer software *RMB'000*	**License** *RMB'000*	**Total** *RMB'000*
Cost:			
At 1 January 2014 and 30 June 2014	**7,572**	**103,780**	**111,352**
Accumulated amortisation:			
At 1 January 2014	**1,463**	**–**	**1,463**
Amortisation provided during the period	**553**	**2,883**	**3,436**
At 30 June 2014	**2,016**	**2,883**	**4,899**
Net carrying amount:			
At 30 June 2014	**5,556**	**100,897**	**106,453**
Cost:			
At 1 January 2013	2,134	–	2,134
Additions during the year (Restated) *(note 22)*	5,438	103,780	109,218
At 31 December 2013	7,572	103,780	111,352
Accumulated amortisation:			
At 1 January 2013	983	–	983
Amortisation provided during the year	480	–	480
At 31 December 2013	1,463	–	1,463
Net carrying amount:			
At 31 December 2013 (Restated)	6,109	103,780	109,889

14. BONDS RECEIVABLE

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

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

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

15. LOANS RECEIVABLE

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

Loans receivable represent the loans provided to suppliers for the purpose of financing suppliers' production capacity to fulfill the purchase requirement of the Group and are repayable by instalments as stipulated in the loan agreements.

	Effective interest rate	**Maturity**	**30 June 2014** *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Denominated in United States dollars (the "US$")	3.00%	By instalments before December 2018	**33,765**	33,863
Denominated in Danish krones (the "DKK")	DKK CIBOR rate +1%	By instalments before January 2017	**69,962**	78,724
Total loans receivable			**103,727**	112,587

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

16. INVESTMENT IN AN ASSOCIATE

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

Particulars of the associate are as follows:

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

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

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

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

17. HELD-TO-MATURITY INVESTMENT

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

Share subscription

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

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

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

18. INVENTORIES

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

19. TRADE AND BILLS RECEIVABLES

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

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, based on the invoice date, is as follows:

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

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

20. TRADE AND BILLS PAYABLES

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

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

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

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

21. CONVERTIBLE BONDS

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

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

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

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

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

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

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

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

22. BUSINESS COMBINATION

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

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

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

	Notes	**Preliminary fair value recognised on acquisition** *RMB'000*	**Final fair value recognised on acquisition** *RMB'000* (Restated)
Property, plant and equipment		140,948	145,113
Prepaid land lease payments		66,052	46,052
Intangible assets	13	–	103,780
Deferred tax liability		–	(20,945)
Total identifiable net assets at fair value		207,000	274,000
Goodwill on acquisition	12	143,000	76,000
Satisfied by cash		350,000	350,000

The quantitative impact on the financial statements is summarised below:

Impact on the consolidated statement of financial position:

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

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

23. COMPARATIVE AMOUNTS

As further explained in note 22, the purchase price allocation for the business combination has been completed in the six months ended 30 June 2014, certain comparative amounts have been restated to conform with the current period's presentation and accounting treatment. The statement of financial position as at 1 January 2013 was not presented as the retrospective restatement has no effect on the information in the statement of financial position at the beginning of the preceding period.

BUSINESS REVIEW

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

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

After demonstrating its full conformity with the more stringent industry manufacturing standards, the Group has gladly seen Adimil (Changsha) Nutrition Products Limited (長沙素加營養品有限公司) ("Changsha Adimil")[(1)], the Group's infant formula plant acquired in last December, successfully renewed its National Industrial Products Production Permit for the production of infant formula products in May 2014. With this permit, Changsha Adimil can commence production of the new Adimil series on schedule with imported European milk sources, allowing the Group to launch its next infant formula series to the market before the end of this year. The management is confident that the new line will help further increase the market penetration of Adimil branded infant formulas in China.

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

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

Notes:

(1) Changsha Yingke Nutrition Products Company Limited (長沙營可營養品有限公司) was acquired by the Group on 30 December 2013, which subsequently changed its name to Adimil (Changsha) Nutrition Products Limited during the first half of 2014.

(2) Certification and Accreditation Administration of China (中國國家認證認可監督管理委員會).

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

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

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

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

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

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

PROSPECTS

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

RESULTS OF OPERATION

Revenue

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

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

Infant formulas

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

Probiotic supplements

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

Dried baby food and nutrition supplements

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

Baby care products

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

Gross profit and gross profit margin

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance costs

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

Income tax expense

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

Profit for the period

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

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

Investing activities

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

Financing activities

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

Cash and bank balances

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

Convertible bonds and interest-bearing bank loans

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

Inventories

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

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

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

HUMAN RESOURCES

As at 30 June 2014, the Group had approximately 3,200 employees in Mainland China, Hong Kong and France. In order to support its growth, the Group has been steadily increasing the investment in developing and retaining its right talent, offering them with competitive compensation, various training and education opportunities. Also, since the Company listed on The Stock Exchange of Hong Kong Limited, the Group has gradually developed and implemented an incentive system to attract and retain talented staff. Up to 30 June 2014, the Group had in total granted 15,782,130 share options under the Pre-IPO Share Option Scheme and Share Option Scheme (adopted on 12 July 2010 and 25 November 2010, respectively), 6,107,902 shares under the Share Award Scheme (adopted on 28 November 2011), and 1,265,644 shares under the 2013 Share Award Scheme (adopted on 29 November 2013), respectively.

DIVIDEND

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

Note:

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

CLOSURE OF REGISTER OF MEMBERS

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

CORPORATE GOVERNANCE CODE

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

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

AUDIT COMMITTEE

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

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

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

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

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

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 2014 containing all the information required by Appendix 16 to the Listing Rules will be dispatched 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, 19 August 2014

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.