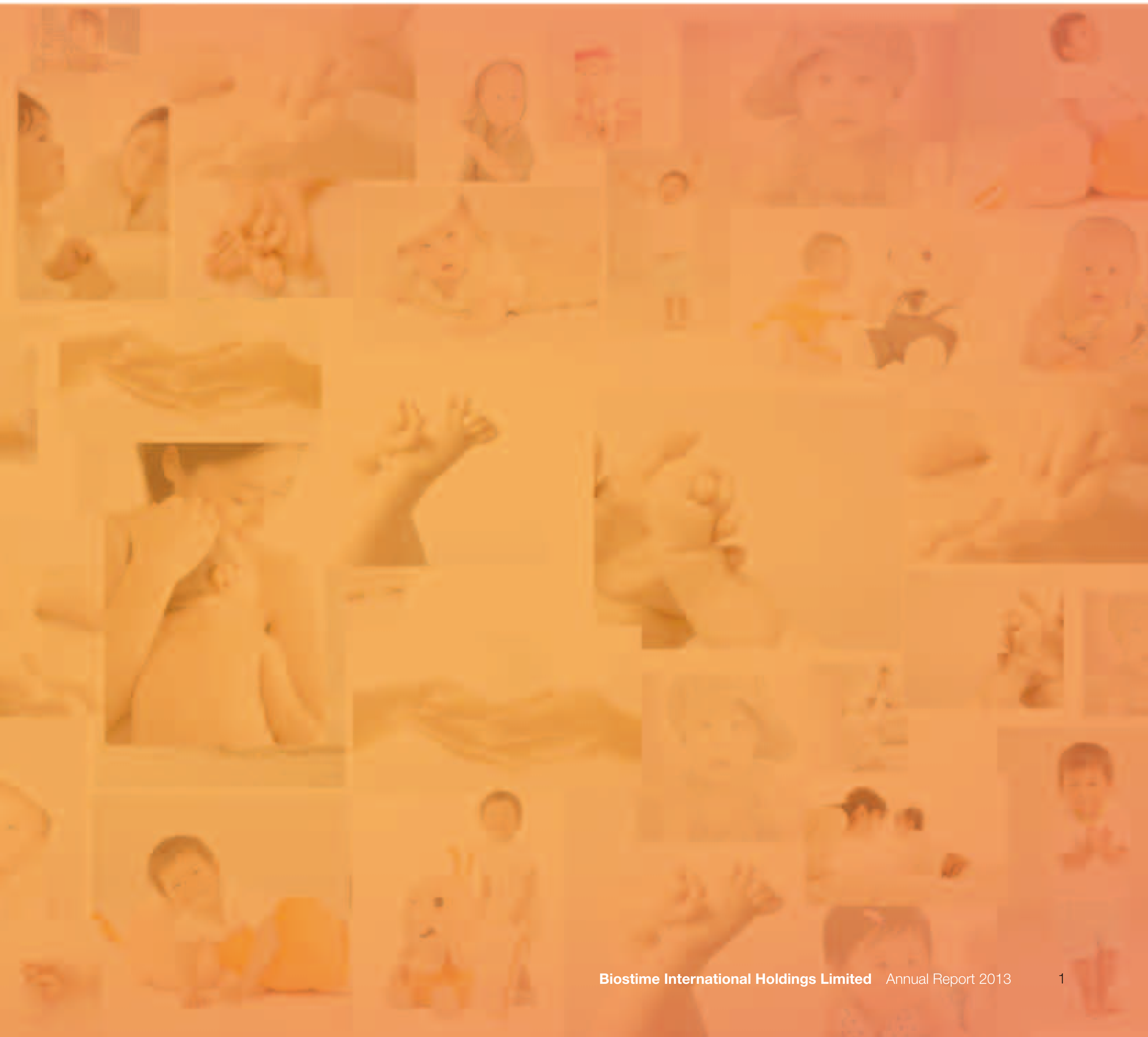
Biostime International Holdings Limited
合生元國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）

(Stock Code 股份代號: 1112)

Annual Report 2013
二零一三年年報

We devote ourselves
to providing parents with comprehensive parenting solutions



Contents

BIOSTIME 合生元

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Luo Fei *(Chairman and Chief Executive Officer)*
Ms. Kong Qingjuan

Non-executive Directors

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

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

Dr. Ngai Wai Fung *(Chairman)*
Mr. Tan Wee Seng
Mr. Luo Yun

Nomination Committee

Mr. Luo Fei *(Chairman)*
Dr. Ngai Wai Fung
Mr. Tan Wee Seng

Remuneration Committee

Mr. Tan Wee Seng *(Chairman)*
Dr. Ngai Wai Fung
Mr. Luo Fei

JOINT COMPANY SECRETARIES

Ms. Wong Tak Yee *FCS, FCIS*
Ms. Yang Wenyun

AUTHORISED REPRESENTATIVES

Mr. Luo Fei
Ms. Wong Tak Yee

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC

29th Floor, Guangzhou International Finance Center
5 Zhujiang West Road, Zhujiang New Town
Tianhe District, Guangzhou
Guangdong Province 510623
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 2208 on 22/F of West Tower
Shun Tak Centre
Nos. 168–200 Connaught Road Central
Hong Kong

COMPANY'S WEBSITE

www.biostime.com.cn

PRINCIPAL BANKER

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

AUDITORS

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

LEGAL ADVISOR (AS TO HONG KONG LAWS)

Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

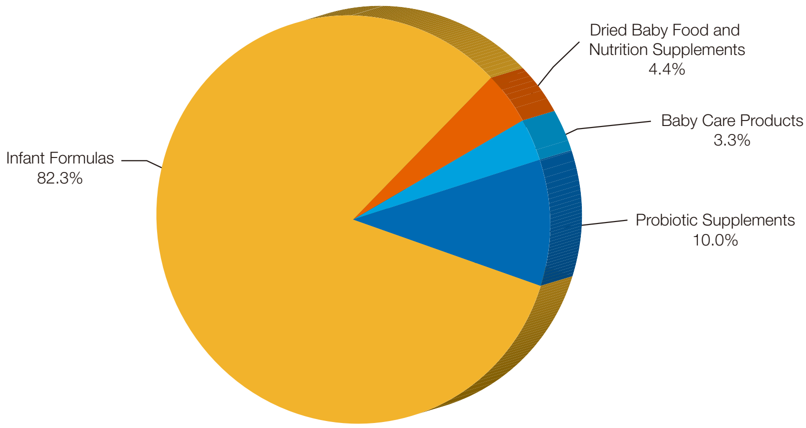
FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2013	2012	% of
	RMB'000	RMB'000	Change
Revenue	**4,561,299**	3,381,901	34.9%
Gross profit	**2,975,120**	2,228,946	33.5%
Profit for the year excluding the one-off expense*	**983,615**	743,106	32.4%
Profit for the year	**820,715**	743,106	10.4%
Earnings per share			
– Basic	**RMB1.37**	RMB1.24	10.5%
– Diluted	**RMB1.34**	RMB1.22	9.8%

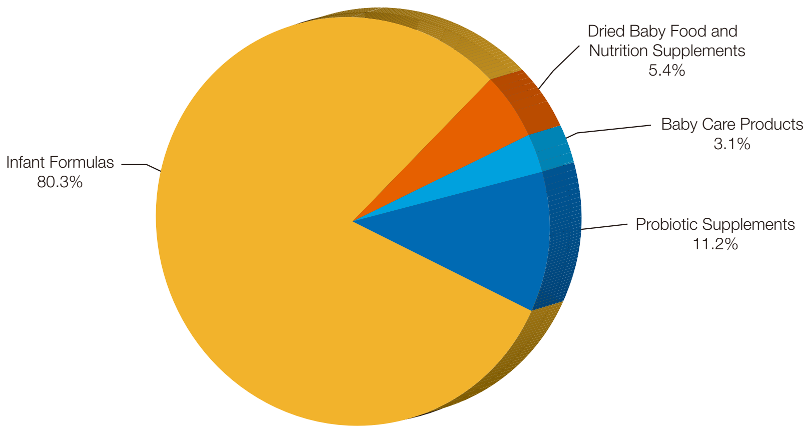
* This one-off expense was a fine of RMB162.9 million.

REVENUE BY PRODUCT SEGMENT

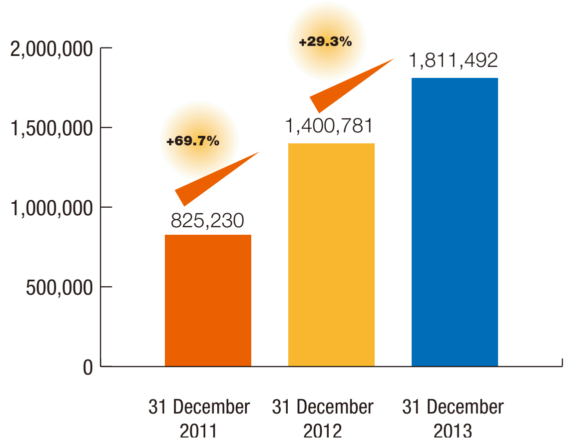
Year ended 31 December 2013



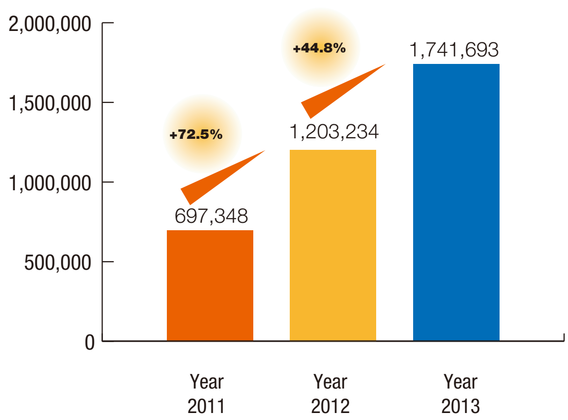
Year ended 31 December 2012



NO. OF ACTIVE MAMA100 MEMBERS



NO. OF AVERAGE ACTIVE MAMA100 MEMBERS



Dear Shareholders,

On behalf of Biostime International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am glad to present our Annual Report for the year ended 31 December 2013, which corresponds to the fourth year since our Initial Public Offering on the Main Board of The Stock Exchange of Hong Kong Limited on 17 December 2010.

BUSINESS REVIEW

As a premium provider of high-end pediatric nutritional and baby care products in China, the Group has been committed to research, development, manufacturing, marketing and sales of premium products for infants, young children and pregnant mothers. Thanks to the booming baby products market in China which is supported by a strong demand from Chinese mothers, the Group recorded a consistent and fast growth of its revenue at a CAGR of 54.6% from 2010 to 2013. For the year ended 31 December 2013, revenue of the Group reached RMB4,561.3 million. Excluding the one-off expense[1], net profit was at a record amount of RMB983.6 million. For the year 2013, growths of revenue and net profit excluding the one-off expense were 34.9% and 32.4% respectively, as compared with 2012.

During the year 2013, the Group has consistently invested in its core competencies and thus recorded a strong growth of 50.1% for the sales volume and 38.2% for the sales revenue in its infant formula business, despite the dynamic changes in the market. Among the sales revenue, the infant formula business under the new "Adimil" brand launched in September 2013, recorded sales revenue of RMB347.6 million.

Probiotic is the second biggest business segment of the Group with the highest gross margin among the product portfolio. During the year 2013, the sales revenue of probiotic business recorded a growth of 20.8% as compared with 2012 and contributed to 10.0% of the Group's total revenue. The Group has launched a new series of probiotic products to satisfy the different needs of consumers and expanded its probiotic product portfolio.

Baby care category, under the "BMcare" brand, remains important to the Group's multi-category expansion. Sales revenue of baby care products reached RMB152.2 million, and rapidly grew at 43.6% as compared with 2012. In January 2014, the Company entered into a joint venture agreement with Hangzhou Coco Healthcare Co., Ltd ("Coco Healthcare"), under which the two companies will jointly invest in five baby diaper production lines. This will enable the Group to launch a new series of baby diaper products to expand its business and reach a broader market in 2014.

Note:

(1) This one-off expense was fine of RMB162.9 million.

BUSINESS REVIEW (Continued)

Due to consumption upgrade and concern of food safety, Chinese mother consumers demand more high-end infant formula products with high quality. To further secure the scarcity of the European milk source and access to sophisticated full formula spray-dry technology, and to gain traceability from the farm to finished product, the Company entered into an equity investment and financing agreement with Isigny Sainte Mère ("ISM"), a renowned French dairy cooperative manufacturer, in July 2013. The total equity investment and financing from the Company to ISM amounts to EUR20.0 million. Upon completion of this equity investment, the Company now owns 20% of the total issued share capital of ISM and has assigned one person to be a member of the board of directors of ISM. By utilizing these proceeds and other financing, ISM is currently building a new infant formula production and packaging industrial facility located on ISM's premises. ISM will also supply the Group's recently acquired infant formula manufacturing facilities in China with its milk source. The Company and ISM are strengthening cooperation in the field of milk supplies, manufacturing, research and development, in order to ensure continuous supply and improvement of the Group's infant formula products distributed in the Chinese market.

The Group consistently invested in branding to increase brand recognition and enhance brand equity. In 2013, the Group further invested on advertising which resulted in an advertising expense increase of 15.2% from the year 2012. This expense increase is mainly from the investment in new media channels, such as internet TV, search engines and online social media.

Mama100 membership platform, which is an integrated database marketing platform providing various value-added services for members and member retail outlets, plays a significant role in the Group's success. It includes a professional magazine, nursing consulting hotline, mama100 mobile app, mama100.com website, membership point accumulation program and training program. This enables the Group to enhance cross-selling and consumer loyalty while supporting a series of database marketing activities to achieve higher sales and promotion efficiency. The average number of Mama100 active members of 2013 increased to 1,741,693 at the rate of 44.8% as compared with that of 2012, reaching 1,811,492 as of the end of 2013. The number of member retail outlets as of the end of 2013 increased to 20,709 at the rate of 32.7% as compared with 2012. The sales generated by Mama100 active members contributed to about 88.9% of the Group's total revenue. In 2013, Mama100 call centre received 271,706 calls and Mama100 "Children" magazine issued 658,454 copies on average each month.

The mobile network and mobile applications have been changing the way consumers socialize, obtain information and shop. In September 2013, the Group, together with the current retail outlet partners and third party solution providers, established an Online-to-Offline ("O2O") business model by integrating online ordering platforms and offline logistic resources of retail outlets. This will strengthen the collaboration with value-chain partners while creating additional benefits for retail outlets by introducing new sales through the online platform and improving operation efficiency. Moreover, this will give consumers great convenience to obtain information about parenting, make inquiries, redeem points, and do shopping online through the Mama100 app. Since O2O was launched, the points accumulated from online orders contributed to 9.0% of the Group's total accumulated points in the same period.

The Group's advanced information systems generates a huge volume of various kinds of data, which enables the management to monitor the business from different perspectives. Therefore, storing, processing and analyzing the data in a secure way is critical to the Group's information security, operation excellence and decision making. During the year 2013, the Group implemented an information security management system which covers a wide range of the Group's products, services and operations. In December 2013, the Group received the Information Security Management System Dual Certification accredited by United Kingdom Accreditation Service (UKAS) and China National Accreditation Service (CNAS), thus demonstrating its conformity with international and domestic information security management standards, namely ISO/IEC 27001:2005 and GB/T 22080:2008, respectively.

BUSINESS REVIEW (Continued)

To support the expansion of sales and distribution channel into lower tier cities, the Group increased the number of its sales offices in Mainland China from 87 to 104 during the year and kept recruiting new people and providing extensive training to the organization. By the end of the year 2013, the Group registered increases in the number of VIP baby specialty stores to 13,952, VIP pharmacies[(1)] to 1,522, and retail sales organizations to 5,235 or by 34.1%, 48.1% and 25.4%, as compared with 2012, respectively. At the same time, the Group has continued to track the inventory and sales of its products at the distributors' level to avoid channel conflict and stuffing. 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 inventory turnover days of the Group's distributors was about 32 days on average in 2013.

Along with the Group's strategy of sales and distribution channel expansion, the Company acquired Changsha Yingke Nutrition Products Company Limited ("Changsha Yingke"), which is engaged in the manufacturing of infant formula products, for a total cash consideration of RMB350 million. This acquisition will expand the Group's production capacity for new "Adimil" series of infant formulas which will target high-end markets in fourth- and fifth-tier cities in China.

The Group is keen to use the best available ingredients for its products and invest in clinical studies in different fields. For example, in 2013, the Group cooperated with its strategic ingredient supplier Enzymotec Ltd (stock code on NASDAQ: ENZY), a world leading provider of structured lipids for infant nutrition use, and recently completed a clinical study on β-vegetable oil, which is one of the key ingredients used in Biostime's infant formula products. This study clinically proves the benefits of this specific ingredient on Chinese babies.

While developing its procurement capacity and expanding its product portfolio, the Group remained focused on innovating new products, engineering technology and maintaining high quality inspection standards by cooperating with global raw material suppliers and world-wide research institutes. Starting from 1 January 2014, the Group has opened an infant formula product traceability system on its official website for consumers to inquire about the key information of the Group's infant formula products with the manufacturing date after 1 January 2013. Such information includes raw milk source country, product provenance, manufacturing date and the certificate of inspection and quarantine on imported goods issued by Entry-Exit Inspection and Quarantine Bureau.

The Group always values its employees as the most important asset and consistently invests in its organizational development so as to attract, retain and inspire the best talent. Competitive compensation, various training and educational opportunities are what the Group offers to fulfill its right talent. As at 31 December 2013, the Group had approximately 3,000 employees in Mainland China, Hong Kong and France. In 2013, the Group paid a total of RMB61.0 million to the trustee for the purchase of ordinary shares of the Company for awarding its employees under the share award scheme (the "Share Award Scheme") which was adopted in November 2011. In November 2013, in addition to the existing share option schemes and Share Award Scheme, the Group further adopted a 2013 share award scheme to extend the share incentive system, enabling the Group more options to award and motivate its employees. The Group was recognized and named the "2013 Best Employer" by Guangzhou Daily, one of the most popular media outlets in southern China, for the second consecutive year.

Note:

(1) VIP pharmacies include pharmacies with Mama100 Member's Zones and pharmacies that meet the Group's special display requirements.

PROSPECTS

In November 2013, The Third Plenary Session of the 18th Communist Party of China announced a major adjustment on population and family planning policy. Adhering to the basic policy of the family planning, the new policy allows couples to have two children if one of them is an only-child. The Group believes that this policy adjustment will give a boost to the number of new born babies in the coming years and hence create a great business opportunity for the baby-related industries. The Group is therefore confident about its business prospect and reacts quickly to further capture this upside trend in China's fast growing market of premium pediatric nutritional products, baby care products and childhood education and psychological care services.

Channel Expansion and Brand Building

In view of the business opportunities in lower tier cities, the Group will continue to develop its sales organization and increase product penetration by consolidating distribution channels, which consist of baby specialty stores, retail sales organizations and pharmacies. By the end of 2014, the Group is targeted to increase the number of its VIP baby specialty stores to 17,000, VIP pharmacies to 2,000 and supermarkets to 6,000. The Group also intends to recruit more new Mama100 members while retaining the existing high-end membership base and is targeted to own over three million Mama100 active members within three years.

Consistently investing in brand building through its well established multi-channel marketing platform is one of the key growth drivers of the Group's business. The Group will continue to invest in advertisements on traditional media circuits such as CCTV and 31 provincial TV stations, parenting magazines and in-store displays, while increasing exposure on internet TV, search engines, mobile terminals, new social networking platforms and other emerging media vehicles, so as to sustain and improve the Group's premium brand image.

The Group now has five product and service brands, namely "Biostime", "Adimil", "BMcare", "Parenting Power" and "Mama100". In order to ensure dedicated efforts in growing each brand and maximize the value of Mama100 as an integrated membership service and database marketing platform, the Group is conducting an internal organizational restructuring to set up four independent business units, sharing the support from Mama100 platform and other background departments. The Group believes that this new structure will support its future business growth by creating brand cooperation synergy, improving company productivity and better leveraging its comprehensive database.

New Initiatives

In response to the Group's market research and consumers' feedback which shows a strong demand for high quality infant formulas in the fourth- and fifth-tier cities in China, the Group is developing a new series of infant formulas, under the "Adimil" brand. These new product series will be manufactured in the Group's manufacturing facilities in China, using the raw milk source imported from Europe. Meanwhile, the Group will broaden its baby diaper category, under the "BMcare" brand, by introducing new baby diaper products manufactured by its joint venture with Coco Healthcare. The Group will also continue to explore and launch new products in addition to the Biostime branded infant formulas and other products in order to capture emerging business opportunities.

PROSPECTS (Continued)

Member Service

It is the goal of the Group's membership platform to understand and fulfill its members' childcare needs in a more comprehensive way. Through Mama100, the Group is able to interact directly with members and gather very large volumes of members' purchasing data. After data analysis, the Group will be able to design and deliver better member services in order to improve the satisfaction of its member consumers.

The Group introduced a mobile app to its Mama100 members, enabling them to obtain information about parenting, make inquiries, redeem points and place online purchasing orders through the app. In 2014, the Group will accelerate the promotion of Mama100 app to increase the number of online active members and the volume of app download.

In the beginning of 2014, the Group launched two main online new initiatives, namely the "Mama100 WeChat Store" and the "JD.COM Mama100 Flagship Store". These online ordering platforms, together with the Mama100 app, will bring more shopping convenience to the Group's members. The Group will continue to upgrade and promote this newly launched function and develop other online ordering platforms with third party solution providers in 2014.

In order to provide professional and scientific guidance and services about baby and toddler's early education and psychological care, the Group has been conducting joint development of child and parenting educational programs in collaboration with world-renowned experts and organizations in Europe and the USA under the "Parenting Power" brand. In 2014, the Group intends to cooperate with third party organizations to provide the early education program to its members.

R&D and Quality Management

The Group's Guangzhou R&D and Quality Analysis Centre is expected to be completed and start to operate at the end of 2014 after two years of construction. The Group believes that this new center will strengthen the Group's long-term R&D and quality management capability. Simultaneously, the Group is cooperating with Chinese Center for Diseases Control and Prevention by supporting research projects through a specific grant. In 2014, the Group will support about 50 projects in the field of nutrition, targeting mothers and children. This is an excellent opportunity for collaborating with key opinion leaders in nutrition research in China which ultimately will lead to better scientific knowledge and community welfare. The Group will continue to expand its R&D team in Europe and explore research projects with external institutes globally.

Stringent quality assurance and control is a key building block of the Group's business fundamental. In 2014, the Group will set up a new inspection center in its newly acquired Changsha infant formula manufacturing site to provide technical support to production process as well as to maintain quality control standards for the infant formula products produced locally.

PROSPECTS (Continued)

Business Model Innovation

The traditional brand companies need to react to the irreversible trend of the wide use of mobile network and prepare for the emerging business opportunities in order to succeed in the highly competitive market. By cooperating with value chain partners and third party solution providers, the Group has gradually made its O2O vision from a conceptual idea to an executable plan. This is a long journey of innovation and the Group will keep exploring the new projects to consummate the O2O business model.

Mama100, as a membership and marketing platform, provides the Group's management with huge volume of various market data, such as member data, channel data and retail outlet data. Leveraging on this comprehensive database, the Group can conduct precision data analysis in every dimension of business operation to support decision-making activities. This ability will eventually turn the business model into what is called one-to-one precision marketing or personalization, through the sophisticated member database analysis. The Group will continue to develop the Mama100 platform to gain a more comprehensive record of member purchasing behavior, parenting information and individual preferences when the Group is interacting with its members, and to improve the database and analysis methodology to generate real-time market intelligence and feasible business action plan.

CHALLENGES

Competition will become fierce as the promising prospect of the high-end pediatric nutritional and baby care market will continue to attract new entrants in the future. However, with its market know-how and unique business model, the Group is confident in its ability to achieve success in 2014.

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 strengthen its supply chain management, increase operation efficiency and leverage economies of scale in order to minimize the fluctuation and maintain profitability.

DIVIDENDS

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board of Directors is pleased to recommend the payment of a final dividend of HK$0.44 per ordinary share and a final special dividend of HK$0.33 per ordinary share for the year ended 31 December 2013. Taking into account the interim dividend of HK$0.25 per ordinary share and the interim special dividend of HK$0.19 per ordinary share in respect of the six months ended 30 June 2013 paid in September 2013, the annual dividend will amount to HK$1.21 per ordinary share, accounting for approximately 70.3% of profit for the year ended 31 December 2013.

SOCIAL RESPONSIBILITY

In cooperation with the Chinese Red Cross Foundation, the Group established the "Biostime China Foundation for Mother and Child" in 2007 and has donated RMB0.1 to this foundation for every product unit sold. Since its inception, the foundation has raised a total of approximately RMB11.0 million by the end of 2013 and has assisted over 350 children and mothers suffering from serious illnesses. In particular, RMB1.0 million has been donated by the foundation for the relief and recontructing in Ya'an, Sichuan Province after an earthquake took place there in April 2013.

The Group also cooperated with the Women and Infant Health Centre under China Centre for Disease Control and Prevention to establish the "Biostime Mother and Infant Nutrition and Health Research Fund" in 2011. This fund is dedicated to supporting researches on the health and well-being of women and infants, including disease prevention and control. The Group will continuously support and participate in such researches in order to contribute to the community welfare.

ACKNOWLEDGEMENTS

The year of 2013 witnessed remarkable achievements made by the Group with the great contributions and support from its dedicated employees, as well as all the other partners over the value chain, including the shareholders, Mama100 members, retailers, distributors and suppliers. I would like to take this opportunity to express my sincere gratitude to all of them and look forward to delivering another year of excellent results with their continuous support.

Luo Fei
Chairman

Hong Kong, 25 March 2014

SUMMARY OF 2013 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		
	2013 RMB'000	2012 RMB'000	% of change
Revenue	4,561,299	3,381,901	34.9%
Gross profit	2,975,120	2,228,946	33.5%
Selling and distribution costs	1,513,046	1,077,721	40.4%
Administrative expenses	177,313	116,871	51.7%
Profit for the year excluding the one-off expense#	983,615	743,106	32.4%
Operating profit for the year*	889,066	697,578	27.5%
Profit for the year	820,715	743,106	10.4%

This one-off expense is a fine of RMB162.9 million.

* 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 asset, currency exchange, donation, penalty of administrative punishment and other atypical gains or losses.

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	
	2013 RMB'000	2012 RMB'000
Net cash flows from operating activities	660,473	947,182
Net cash flows used in investing activities	(80,749)	(1,850,498)
Net cash flows used in financing activities	(214,674)	(191,651)
Cash and cash equivalents and time deposits at end of year	2,517,710	2,611,128

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2013, revenue increased by 34.9% to RMB4,561.3 million as compared with 2012, reflecting the continuous increase in sales volumes and improvements in product mix. The following table sets forth the Group's revenue by product segment for the years indicated:

	Year ended 31 December		
	2013 RMB'000	2012 RMB'000	% of growth
Probiotic supplements	458,164	379,203	20.8%
Infant formulas	3,752,116	2,715,291	38.2%
Dried baby food and nutrition supplements	198,778	181,418	9.6%
Baby care products	152,241	105,989	43.6%
Total	4,561,299	3,381,901	34.9%

RESULTS OF OPERATION (Continued)

Revenue (Continued)

Probiotic supplements

Revenue of probiotic supplements increased by 20.8% from RMB379.2 million in 2012 to RMB458.2 million in 2013. The increase was mainly due to the increased sales volume and sales contribution from the launch of new series probiotic product in the first half of 2013.

Infant formulas

As the Group's largest product segment, revenue of infant formulas experienced a solid year-on-year increase by 38.2% to RMB3,752.1 million in 2013, accounting for 82.3% of the Group's total revenue. The revenue growth reflected sales volume increase and product portfolio growth throughout the segment. Driven by the increase in the number of active Mama100 members, ever-growing market reputation and the expansion of distribution channel, the sales volume of infant formula increased by 50.1% in 2013 compared with 2012. In the second half of 2013, the Group introduced a new infant formula brand – Adimil (素加) to satisfy the diversified high-end consumers' needs in selecting infant formulas. By the end of 2013, Adimil had been receiving a positive response from the market and recorded a revenue amounted to RMB347.6 million.

Dried baby food and nutrition supplements

Revenue of dried baby food and nutrition supplements increased by 9.6% to RMB198.8 million in 2013 compared with 2012. The increase was mainly attributable to the continuous growth in sales volume of both baby cereal products and nutrition supplements.

Baby care products

Revenue of baby care products increased by 43.6% to RMB152.2 million in 2013 compared with 2012. The Group's precise database marketing and cross-selling strategy had proven to be exceptionally effective to drive revenue increase in baby care products segment.

Gross profit and gross profit margin

Gross profit increased by 33.5% from RMB2,228.9 million in 2012 to RMB2,975.1 million in 2013 primarily due to the increase in revenue. Gross profit margin decreased slightly from 65.9% in 2012 to 65.2% in 2013. The decrease in gross profit margin mainly resulted from the product mix impact, the decrease in ex-factory prices of certain infant formula products and the increased cost on rewards to consumers of infant formula products with addition 50% of accumulation points.

Other income and gains

Other income and gains increased by 86.9% to RMB106.4 million in 2013 compared with 2012. Other income and gains mainly consisted of interest income of RMB87.6 million, net exchange gain of RMB14.0 million and others. The increase was mainly due to the increase in interest income and the record of net foreign exchange gain in 2013 instead of the net exchange loss in 2012.

Selling and distribution costs

Selling and distribution costs increased by 40.4% from RMB1,077.7 million in 2012 to RMB1,513.0 million in 2013, primarily as the result of an increase in the Group's advertising and promotional expenses in relation to the consumer communication and brand building. The increase was also attributable to the increase in staff costs and office expenses resulting from the growth of headcounts. To facilitate the expansion of sales and distribution channels, especially to increase the penetration into low-tier cities, the Group increased the number of its sales offices in Mainland China from 87 to 104 in the second half of 2013 and kept providing extensive training to its sales team in order to support the expansion of its business all across China. As a result, the selling and distribution costs as a percentage of revenue increased from 31.9% in 2012 to 33.2% in 2013.

RESULTS OF OPERATION (Continued)

Administrative expenses

The Group continue to increase headcount of managerial employees and training expenses to better support the business growth and solidify the Group's infrastructure. Therefore, administrative expenses increased by 51.7% from RMB116.9 million in 2012 to RMB177.3 million in 2013. Administrative expenses as a percentage of revenue increased slightly from 3.5% in 2012 to 3.9% in 2013.

Other expenses

For the year ended 31 December 2013, other expenses increased by 43.9% to RMB55.6 million compared with the year ended 31 December 2012. Other expenses mainly consisted of R&D expenses and others. The R&D expenses increased by 60.7% to RMB43.7 million in 2013 compared with 2012, resulting from the increased joint development expenses with European infant formula suppliers to provide Chinese consumers with safe and premium infant formulas. R&D expenses as a percentage of revenue increased from 0.8% for the year ended 31 December 2012 to 1.0% for the year ended 31 December 2013.

Fine on the violation of Anti-Monopoly Law

In June 2013, BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, was under an investigation by the National Development and Reform Commission of the People's Republic of China ("PRC") (the "NDRC") in relation to an alleged violation of Article 14 of the Anti-Monopoly Law of the PRC (the "PRC AML"). On 6 August 2013, the investigation was concluded and Biostime Guangzhou received the Decision issued by the NDRC. According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of PRC AML by providing fixed prices for its products in its distribution agreements with its distributors, and therefore shall be subject to a fine in the amount of RMB162.9 million according to Article 46 of the PRC AML. The Group shall continue to improve its internal control system to ensure that its various business decisions comply with the applicable PRC laws and regulations.

Income tax expenses

For the year ended 31 December 2013, income tax expenses amounted to RMB341.4 million, representing an increase of 11.0% compared with 2012. The increase was in line with the increase in the Group's profit before tax. The effective income tax rate increased slightly from 29.3% in 2012 to 29.4% in 2013. The effective income tax rate kept stable as results of (i) the impact of the one-off fine imposed by the NDRC by approximately 3.5 percentage points, which was subject to income tax under the existing PRC tax rules; (ii) the increased applicable income tax rate of 25.0% for Biostime (Guangzhou) Health Products Limited, which enjoyed a preferential corporate income tax rate of 12.5% in 2012; and (iii) partially offset by the decreased applicable withholding tax rate from 10.0% in 2012 to 5.0% in 2013 arising from the distribution of retained profits of the Company's subsidiaries in Mainland China. In the second half of 2013, 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)", and enjoyed a lower withholding tax rate of 5.0%.

Profit for the year

As compared with 2012, profit for the year increased from RMB743.1 million to RMB820.7 million in 2013, representing a growth of 10.4%. Excluding the one-off fine of RMB162.9 million imposed by the NDRC, profit for the year ended 31 December 2013 amounted to RMB983.6 million, representing an increase of 32.4% as compared with the year ended 31 December 2012.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2013, the Group had net cash generated from operating activities of RMB660.5 million, consisting of cash generated from operations of RMB1,007.9 million, partially offset by income tax paid of RMB347.4 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB1,174.5 million before working capital adjustments and net negative changes in working capital of RMB166.6 million.

Investing activities

For the year ended 31 December 2013, net cash flows used in investing activities amounted to RMB80.7 million. The Group's net cash outflows for investing activities mainly consisted of (i) outflow for construction in progress and purchase of property, plant and equipment of RMB135.7 million, (ii) acquisition of a PRC subsidiary of RMB350.0 million; and (iii) partially offset by the decrease in time deposit of RMB457.6 million.

Financing activities

For the year ended 31 December 2013, net cash used in financing activities amounted to RMB214.7 million, primarily reflecting the cash outflow from financing activities of (i) RMB621.9 million for the distribution of final and special dividends for the year ended 31 December 2012 and interim and interim special dividends for the six month ended 30 June 2013, and (ii) payment of RMB64.1 million for the purchase of ordinary shares of the Company under the Share Award Scheme. The above cash outflow was partially offset by the cash inflow of RMB480.1 million of net proceeds from bank loans.

Cash and bank balances

As of 31 December 2013, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,662.8 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB854.9 million, the Group's cash and bank balances amounted to RMB2,517.7 million as of 31 December 2013.

Interest-bearing bank loans

As at 31 December 2013, the Group's outstanding interest-bearing bank loans amounted to RMB750.6 million, of which all were repayable within one year. The gearing ratio was 16.2%. The gearing ratio is calculated by dividing total interest-bearing bank loans by total assets.

Inventories

	As of 31 December	
	2013	2012
	RMB'000	RMB'000
Raw materials	**445,516**	185,647
Raw materials in transit	**375,522**	277,425
Work in progress	**2,881**	2,486
Finished goods	**147,974**	57,709
Total	**971,893**	523,267

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Raw materials mainly included i) probiotic powder, dried baby food ingredients and other materials purchased from the Group's material suppliers; ii) finished infant formula products, dried baby food products, baby care products and nutrition supplement products imported with original packaging from the Group's product suppliers, which were subject to bar code affixing; and iii) packaging materials. Raw materials in transit represented the imported raw materials which were still in transit or under the quality inspection procedures performed by CIQ(1) under AQSIQ(2).

Working capital cycle

The Group's cash cycle increased from 79 days in 2012 to 100 days in 2013.

The average turnover days of trade and bills receivables maintained at 1 day for the years ended 31 December 2013 and 2012.

The average turnover days of inventories increased from 130 days for the year ended 31 December 2012 to 170 days for the year ended 31 December 2013, primarily due to (i) the increase in inventories resulted from the introduction of the new series infant formula – *Adimil*. Excluding the Adimil infant formulas purchased, the average turnover days of inventories for the year ended 31 December 2013 was around 160 days; (ii) the stricter quality inspection procedures for imported goods performed by the CIQ under AQSIQ; and (iii) the increased inventories stored up to satisfy the increasing market demand. Taking no account of the raw materials in transit, the average turnover days of inventories increased from 83 days in 2012 to 96 days in 2013, resulting from the increased inventories stored up to satisfy the increasing market demand.

The average turnover days of trade payables increased from 52 days in 2012 to 71 days in 2013, which was mainly due to the increased trade payables as at the year end, which was still within the credit terms.

USE OF PROCEEDS

The shares of the Company became listed on the Main Board of the Stock Exchange of Hong Kong Limited (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, taking into account the net proceeds from the partial exercise of the over-allotment option.

The use of the net proceeds from the global offering up to 31 December 2013 was as follows:

	Available to utilize HK$ million	Utilized as at 31 December 2013 HK$ million	Unutilized as at 31 December 2013 HK$ million
Enhancing and reinforcing the brand recognition and brand image	558.5	494.6	63.9
Expanding business by cooperating with upstream suppliers	319.1	289.5	29.6
Expanding and developing the sales distribution network and retail channels	239.3	239.3	–
Investing in research and development and expanding production infrastructure and warehouses	239.3	166.7	72.6
Upgrading the information technology system	79.8	45.5	34.3
Working capital and other general corporate purposes	159.6	135.6	24.0
	1,595.6	1,371.2	224.4

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

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

Notes:

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

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

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Throughout the year ended 31 December 2013, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision A.2.1, details of which are explained below.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2013.

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

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the year ended 31 December 2013.

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

THE BOARD

Responsibilities

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

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

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

Board Composition

The Board currently comprises nine members, consisting of two executive Directors, four non-executive Directors and three independent non-executive Directors. The Board has also established three Board committees, namely, the nomination committee (the "Nomination Committee"), the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee"). Directors' biographical details are set out in the section headed "Biography of Directors and Senior Management" on pages 37 to 49 of this Annual Report. Below is the list of Directors:

Executive Directors:

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

Non-executive Directors:

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

Independent non-executive Directors:

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

THE BOARD (Continued)

Board Composition (Continued)

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

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

Delegation by the Board

During the year ended 31 December 2013, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

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

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

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

THE BOARD (Continued)

Chairman and Chief Executive Officer

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

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

Joint Company Secretaries

The joint company secretaries of the Company are Ms. Wong Tak Yee of Tricor Services Limited, an external service provider, and Ms. Yang Wenyun who is also the primary contact person of the Company. Details of the biographies of the joint company secretaries are set out in the section headed "Biography of Directors and Senior Management" on pages 37 to 49 of the Annual Report.

Each of the joint company secretaries has undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the year ended 31 December 2013.

Board Practices of Meetings

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

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

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

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or Board committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

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

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

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

THE BOARD (Continued)

Board Practices of Meetings (Continued)

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

During the year ended 31 December 2013, the Board held 15 meetings. During the meetings of the Board held in 2013, the Board reviewed the operation and financial performance and reviewed and approved the annual results for the year ended 31 December 2012 and the interim results for the six months ended 30 June 2013.

Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2013

Name of Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meeting	Remuneration Committee Meetings	Annual General Meeting
Executive Directors					
Mr. Luo Fei *(Note 1)*	15/15	N/A	1/1	6/6	1/1
Ms. Kong Qingjuan	15/15	N/A	N/A	N/A	1/1
Non-executive Directors					
Dr. Zhang Wenhui	15/15	N/A	N/A	N/A	1/1
Mr. Wu Xiong	15/15	N/A	N/A	N/A	1/1
Mr. Luo Yun	15/15	2/2	N/A	N/A	1/1
Mr. Chen Fufang	14/15	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Dr. Ngai Wai Fung *(Note 2)*	15/15	2/2	1/1	6/6	1/1
Mr. Tan Wee Seng *(Note 3)*	15/15	2/2	1/1	6/6	1/1
Professor Xiao Baichun	15/15	N/A	N/A	N/A	1/1
Date of Meeting *(DD/MM/YYYY)*	08/01/2013 19/03/2013 25/03/2013 27/06/2013 23/07/2013 20/08/2013 27/08/2013 21/10/2013 07/11/2013 22/11/2013 29/11/2013 05/12/2013 20/12/2013 27/12/2013 30/12/2013	18/03/2013 19/08/2013	19/03/2013	08/01/2013 15/03/2013 25/03/2013 26/06/2013 27/08/2013 21/10/2013	09/05/2013

Notes:

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

THE BOARD (Continued)

Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2013 (Continued)

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

Besides the Annual General Meeting ("AGM") held on 9 May 2013, no other general meeting was held during the year ended 31 December 2013.

In addition to the above-mentioned Board meetings, the Chairman of the Board held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year ended 31 December 2013.

Independence of Independent Non-executive Directors

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

In order to better encourage the independent non-executive Directors to exert their professional knowledge and expertise for the Company, each of them was granted share options by the Company on 16 December 2011 under the Share Option Scheme adopted by the Company. Details of such grant of share options are set out on page 56 of this Annual Report.

Term of Appointment of Non-executive Directors

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

On 7 November 2013, each of Mr. Wu Xiong, Luo Yun and Chen Fufang, the non-executive Directors of the Company, entered into a new letter of appointment with the Company for a specific term of three years commencing on 17 December 2013, automatically renewable upon expiration.

Appointment, Re-election and Removal of Directors

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

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

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

THE BOARD (Continued)

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

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

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

Remuneration of Directors and Senior Management

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

The remuneration of each of members of the senior management of the Group by band for the year ended 31 December 2013 is set out below:

Remuneration bands	Number of persons
HK$2,000,001 to HK$3,000,000	3
HK$3,000,001 to HK$4,000,000	–
HK$4,000,001 to HK$5,000,000	1
HK$5,000,001 to HK$6,000,000	4
HK$6,000,001 to HK$7,000,000	4
HK$7,000,001 to HK$8,000,000	2
HK$8,000,001 to HK$9,000,000	–
HK$9,000,001 to HK$10,000,000	1

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

Continuous Professional Development

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

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

THE BOARD (Continued)

Continuous Professional Development (Continued)

During the year ended 31 December 2013, the Directors participated in the following trainings:

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

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

Corporate Governance Function

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

During the year ended 31 December 2013, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company Code, Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and relevant disclosure in this Corporate Governance Report of the Annual Report of the Company.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2013. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2013 are set out in the Directors' Report on page 64 of the Annual Report.

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

THE BOARD (Continued)

Liability Insurance for Directors

The Company has subscribed appropriate and sufficient insurance coverage on Directors' liabilities in respect of legal actions taken against Directors arising out of corporate activities since August 2011, which is reviewed and renewed on an annual basis. The insurance coverage was lately renewed on 18 August 2013.

NOMINATION COMMITTEE

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

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy adopted on 20 August 2013, including but not limited to gender, race, language, cultural background, educational background, industry experience and functional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

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

The Nomination Committee held a meeting during the year ended 31 December 2013 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and make recommendations to the Board on the re-election and re-appointment of Directors and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2013" above. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, as recommended by the Nomination Committee, Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun, all the independent non-executive Directors, shall retire from office by rotation and being eligible, offer themselves for re-election at the forthcoming AGM to be held on 8 May 2014.

The Company's circular dated 3 April 2014 contains detailed information of the Directors standing for re-election.

AUDIT COMMITTEE

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

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

The main duties of the Audit Committee include the following:

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

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

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

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2013 and the annual results for the year ended 31 December 2013, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2013 and the Annual Report for the year ended 31 December 2013, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

The Audit Committee held two meetings during the year ended 31 December 2013 and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2013" above.

The Audit Committee also met the external auditors twice without the presence of the executive Directors in the year of 2013.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements of the Company is set out in the Independent Auditors' Report on page 65 of the Annual Report.

Non-audit services by the external auditors are subject to the Audit Committee's approval and may be engaged only if they are more effective or economical than those available from other service providers and will not constitute adverse impact on the independence of the external auditors. In 2013, the external auditors provided non-audit service mainly in finance and tax due diligence.

AUDIT COMMITTEE (Continued)

External Auditors and Auditors' Remuneration (Continued)

The Audit Committee has reviewed the independence and objectivity of the external auditors in 2013 and has been satisfied with the findings. The Audit Committee has recommended to the Board the re-appointment of Ernst & Young as the Company's external auditors at the forthcoming AGM.

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

Type of Services	RMB'000
Annual audit services	2,730
Non-audit services	
– Finance and tax due diligence	280
Total	**3,010**

REMUNERATION COMMITTEE

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

The primary objectives of the Remuneration Committee include making recommendations on the Company's remuneration policy and structure for all Directors' and senior management's remuneration, and remuneration packages of the individual executive Directors and the senior management. The Remuneration Committee is also responsible for establishing a formal and transparent procedure for developing such remuneration policy and structure to ensure that no Director or any of his associates (as defined in the Listing Rules) will be involved in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

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

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

During the year under review, the Remuneration Committee made recommendations to the Board to grant and award the shares of the Company to eligible persons pursuant to the Share Award Scheme adopted by the Board on 28 November 2011 and amended by the Board on 30 March 2012, in order to recognise the contributions by certain employees, to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The Remuneration Committee held six meetings during the year ended 31 December 2013 and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and Annual General Meeting during the Year Ended 31 December 2013" above.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. The Chairman of the Board, all executive Directors, non-executive Directors, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the AGMs to meet shareholders and answer their enquiries.

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

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

During the year ended 31 December 2013, the Company participated in 20 investors' conferences and roadshows and more than 600 individual meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the year are summarized as follows:

Date	Event	Organizer	Location
March 2013	Hong Kong Roadshow	HSBC, Jefferies	Hong Kong
April 2013	BNP Paribas Roadshow	BNP Paribas	Paris, Netherlands, Frankfurt
April 2013	HSBC Roadshow	HSBC	London, Edinburgh
April 2013	Daiwa Consumer & Gaming Conference	Daiwa	Hong Kong
June 2013	Reverse Roadshow – Visit to Upstream Suppliers	the Company	France
June 2013	Jefferies Global Consumer Conference	Jefferies	Boston
June 2013	Jefferies Roadshow	Jefferies	Boston, New York
June 2013	Standard Chartered Roadshow	Standard Chartered	New York, Chicago, Lisle, Santa Fe, Salt Lake City, Los Angeles, San Francisco
August 2013	BoA Merrill Lynch Roadshow	BoA Merrill Lynch	Hong Kong

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (Continued)

Date	Event	Organizer	Location
August 2013	Macquarie Presentation	Macquarie	Hong Kong
September 2013	2013 Reverse Roadshow – Biostime 2013 Forum of Member Stores & New Product Launch Meeting	the Company	Macau
September 2013	Standard Chartered Roadshow	Standard Chartered	Singapore, Shanghai
October 2013	HSBC 3rd Annual China Consumption Conference	HSBC	Hong Kong
October 2013	Jefferies HK Summit	Jefferies	Hong Kong
October 2013	Standard Chartered Double in 3 Triple in 5 Emerging Conference	Standard Chartered	Hong Kong
November 2013	Goldman Sachs Greater China CEO Summit 2013	Goldman Sachs	Hong Kong
November 2013	BAML China Conference 2013	BoA Merrill Lynch	Beijing
November 2013	Citi Greater China Investor Conference 2013	Citi	Macau
November 2013	Morgan Stanley 12th Annual Asia Pacific Summit	Morgan Stanley	Singapore
November 2013	Taipei Roadshow	BNP Paribas	Taipei

The last shareholders' meeting was the AGM held on 9 May 2013 at Kellett Room IV, 3/F., The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong for approval of, among others, the general mandates to issue and purchase shares of the Company and the re-election and re-appointment of Directors. Particulars of the major items considered at the AGM are set out in the circular dated 28 March 2013. All proposed ordinary resolutions were passed by way of poll at the AGM.

The forthcoming AGM will be held on 8 May 2014. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (Continued)

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

SHAREHOLDER RIGHTS

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

Pursuant to Article 58 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the joint company secretaries of the Company by mail at Unit No. 2208 on 22/F of West Tower, Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the joint company secretaries by mail at Unit No. 2208 on 22/F of West Tower, Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong. The joint company secretaries forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the Chief Executive Officer of the Company.

EXECUTIVE DIRECTORS

Mr. Luo Fei (羅飛), aged 50, is an executive Director and Chief Executive Officer of the Company. Mr. Luo was appointed as an executive Director on 30 April 2010, and is also a director of the Company's subsidiaries BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou"), BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou"), Biostime (Guangzhou) Education Management Inc. ("Biostime Education"), Biostime International Investment Limited ("Biostime Investment"), Biostime Hong Kong Limited ("Biostime Hong Kong"), Parenting Power International Holdings Limited ("Parenting Power Holdings"), Parenting Power Investment Limited ("Parenting Power Investment"), Parenting Power Hong Kong Limited ("Parenting Power Hong Kong"), Mama100 International Holdings Limited ("Mama100 Holdings"), Mama100 International Investment Limited ("Mama100 Investment"), Mama100 Hong Kong Limited ("Mama100 Hong Kong") and Changsha Yingke Nutrition Products Company Limited (長沙營可營養品有限公司) ("Changsha Yingke"). He is also the supervisor of the Company's subsidiary Biostime (Guangzhou) Health Products Limited ("Biostime Health"). Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals (China) Limited ("Biostime Pharmaceuticals") with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the Securities and Futures Ordinance (the "SFO"). For further details, please refer to page 61 of this Annual Report. Mr. Luo is primarily responsible for the Company's overall strategies, planning and business development. Mr. Luo has approximately 20 years of experience in the biotechnology industry. From June 1989 to October 1990, Mr. Luo was employed by Kanghai Enterprise Development Company of Guangzhou Economic and Technological Development Zone (廣州經濟技術開發區康海企業發展公司) as an assistant engineer. In February 1993, Mr. Luo established Guangzhou Baixing Bioengineering Co., Ltd. (廣州百星生物工程有限公司) and acted as its legal representative and general manager. In December 1994, Mr. Luo established Guangzhou Biohope Co., Ltd. ("Guangzhou Biohope"), a company engaged in the import and distribution of raw materials for personal care products and household cleaning products, and acted as Guangzhou Biohope's legal representative from December 1994 to June 2010, and has been a director of Guangzhou Biohope since December 1994. In August 1999, Mr. Luo established Biostime Guangzhou and has served as its general manager since then. Mr. Luo is also the vice-chairman of the Mommy Baby Products Association of Guangzhou (廣東省孕嬰童用品協會) and chairman of the management committee of the Biostime China Foundation for Mothers and Children. Mr. Luo received a bachelor's degree in microbiological engineering in July 1985 and a master's degree in industrial fermentation in June 1988 from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院). Mr. Luo has also completed the China Europe International Business School (中歐國際工商學院) EMBA program and was awarded a master's degree in business administration in September 2008.

Ms. Kong Qingjuan (孔慶娟), aged 52, is an executive Director and the Chief Operating Officer of the Company. Ms. Kong was appointed as an executive Director on 12 May 2010, and is also a director and the general manager of the Company's subsidiaries Biostime Health and Changsha Yingke, and a supervisor of the Company's subsidiaries BMcare Guangzhou, Biostime Guangzhou and Biostime Education. Ms. Kong is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 61 of this Annual Report. Ms. Kong has approximately 18 years of experience in the biotechnology industry and is mainly responsible for the overall procurement, logistics, production, as well as internal compliance and control. Ms. Kong joined the Group in July 2000 and was appointed as a director of Biostime Guangzhou from December 2002 to December 2010, and she was the chief operating officer of Biostime Guangzhou from January 2006 to December 2010. Prior to joining the Group, Ms. Kong worked for Hospital of Traditional Chinese Medicine of Hebei Province (河北省中醫院) from January 1983 to July 1995. From August 1995 to February 2000, Ms. Kong was employed by Dalian Sanzhu Bio-Cosmetic Co., Ltd. (大連三株生態化妝品有限公司). Ms. Kong graduated from Hebei Medical University (河北醫科大學), formerly known as Hebei Medical Institute (河北醫學院), with a bachelor's degree in clinical medicine in July 1985.

NON-EXECUTIVE DIRECTORS

Dr. Zhang Wenhui (張文會), aged 49, is a non-executive Director of the Company. Dr. Zhang was re-designated to a non-executive Director on 25 June 2012. Dr. Zhang was previously an executive Director of the Company from 12 May 2010 to 24 June 2012. Dr. Zhang is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 61 of this Annual Report. Dr. Zhang has also been an independent director of Stoltze Specialty Processing, LLC in the United States since September 2012. Dr. Zhang has almost 18 years of experience in the biotechnology industry, through teaching in universities and working for several biotechnology companies. Dr. Zhang was a lecturer of bioengineering at South China University of Technology (華南理工大學) from August 1994 to August 1996. From December 2000 to August 2003, Dr. Zhang was employed as an assistant research professor in the department of chemical engineering in University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States. After that, Dr. Zhang was employed as a scientist in the process development department of Xoma (US) LLC in the United States from September 2003 to September 2005. Dr. Zhang joined the Group in October 2005 as the chief technology officer of Biostime Guangzhou and became a general manager of the technology center of Biostime Health in December 2010, where he was primarily responsible for the research and development, product quality control and technology support, and held this position until 24 June 2012. Dr. Zhang was also the chief technology officer and head of the Quality Assurance Department of the Company until 24 June 2012 and a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou until 2 September 2012. Dr. Zhang received a bachelor's degree in biochemical engineering from East China University of Science and Technology (華東理工大學), formerly known as East China College of Chemical Engineering (華東化工學院), in July 1985, and a master's degree in industry fermentation and a doctorate in fermentation engineering from South China University of Technology (華南理工大學) in July 1988 and September 1994, respectively. In September 1997, Dr. Zhang completed an international post graduate university course in microbiology at Osaka University (大阪大學). Dr. Zhang conducted research as a post-doctoral scientist in the department of food science and technology in the University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States from October 1997 to November 2000.

Mr. Wu Xiong (吳雄), aged 58, is a non-executive Director of the Company. Mr. Wu was appointed as a non-executive Director on 12 May 2010. Mr. Wu is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 61 of this Annual Report. Mr. Wu has been the legal representative and general manager of Hainan Fangsheng Industry Development Co., Ltd. (海南方盛實業發展有限公司) since December 2009 and is responsible for the overall management of its business operation. Mr. Wu worked in the Administration for Industry and Commerce of Haikou City (海口市工商行政管理局) between December 1980 and December 1997. From December 1997 to December 2000, Mr. Wu was employed by Haikou Market Properties Development Co., Ltd. (海口市市場物業發展有限公司). From December 2000 to December 2009, Mr. Wu was the legal representative and general manager of Hainan Junjie Automobile Sale Co., Ltd. (海南駿捷汽車銷售有限公司) and was responsible for its overall business operations. Mr. Wu was a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health and BMcare Guangzhou until 2 September 2012. Mr. Wu graduated from Haikou No.1 Middle School (海口市第一中學) in July 1975.

NON-EXECUTIVE DIRECTORS (Continued)

Mr. Luo Yun (羅雲), aged 53, is a non-executive Director of the Company. Mr. Luo was appointed as a non-executive Director on 12 May 2010, and is also a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health, BMcare Guangzhou, Biostime Education, Biostime Investment, Biostime Hong Kong, Parenting Power Holdings, Parenting Power Investment, Parenting Power Hong Kong, Mama100 Holdings, Mama100 Investment and Mama100 Hong Kong. Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 61 of this Annual Report. From 1980 to 1993, Mr. Luo was employed by Haikou Qiongshan Medical Co., Ltd. (海口瓊山醫藥公司). Mr. Luo was employed as a sales manager for Guangzhou Biohope from December 1994 to August 1999. From August 1999 to September 2009, Mr. Luo held various positions in Biostime Guangzhou including the sales director and the director in charge of the Mama100 membership center. From September 2009 to December 2011, Mr. Luo was the general manager and director of a company formerly known as Biostime Health and Nutrition (Guangzhou) Limited (now known as Leseil Health and Nutrition (Guangzhou) Limited), where he was responsible for the overall strategies and business development. Mr. Luo graduated from Continuing Education School of Jinan University (暨南大學成人教育學院) in July 1987 with a certificate of graduation in business and economic management. Mr. Luo has also completed the EMBA course at Fudan University (復旦大學) in Shanghai and was awarded an EMBA degree in July 2012. Mr. Luo is the elder brother of Mr. Luo Fei, the Chairman of the Board and one of the Company's executive Directors.

Mr. Chen Fufang (陳富芳), aged 50, is a non-executive Director of the Company. Mr. Chen was appointed as a non-executive Director on 12 May 2010, and is also a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health, BMcare Guangzhou, Biostime Education, Biostime Investment, Biostime Hong Kong, Parenting Power Holdings, Parenting Power Investment, Parenting Power Hong Kong, Mama100 Holdings, Mama100 Investment and Mama100 Hong Kong. Mr. Chen is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 61 of this Annual Report. Mr. Chen has been a director and the general manager of Guangzhou Biohope since March 1999, and its legal representative since June 2010, where he oversees overall business operations and management. Prior to that, Mr. Chen worked for Guangdong Textile Industry Group Company (廣東省紡織工業總公司), a company engaged in the import and export of textile products and apparels, from 1988 to 1997, where he was recognized as chemical fiber assistant engineer (化纖助理工程師) and chemical fiber engineer (化纖工程師) in March 1988 and November 1992, respectively. Mr. Chen graduated from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院), with a bachelor's degree in chemical fiber in July 1985 and a master's degree in chemical fiber in June 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ngai Wai Fung (魏偉峰), aged 52, is an independent non-executive Director of the Company. Dr. Ngai was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Audit Committee of the Company. Dr. Ngai is the managing director of MNCOR Consulting Limited (formerly known as MN Consulting Limited) and the chief executive officer of SWCS Corporate Services Limited. Dr. Ngai is also a vice president of the Hong Kong Institute of Chartered Secretaries (the "HKICS") and the Adjunct Professor of Law of Hong Kong Shue Yan University. He was a director and head of Listing Services of the independently operating corporate services provider (formed by the former corporate and commercial divisions of KPMG and Grant Thornton). Prior to that, Dr. Ngai had held various senior management positions including executive director, chief financial officer and company secretary in a number of companies listed in Hong Kong, including Cosco Group, China Unicom Limited (中國聯通股份有限公司) and Industrial and Commercial Bank of China (Asia) Limited (中國工商銀行（亞洲）有限公司). Dr. Ngai was an independent non-executive director of China Life Insurance Company Limited (中國人壽保險股份有限公司) from December 2006 to May 2009 and an independent non-executive director of Franshion Properties (China) Limited (方興地產（中國）有限公司) from May 2007 to June 2011. In addition, Dr. Ngai is currently an independent non-executive director or independent director and a member or chairman of the audit committee of the below companies, the shares of which are listed on either the main board of the Stock Exchange of Hong Kong Limited (the "Main Board") or the New York Stock Exchange (the "NYSE"):

Company Name (English)	Company Name (Chinese)	Name of Stock Exchange	Stock Code	Appointment Date
BaWang International (Group) Holding Limited	霸王國際(集團)控股有限公司	Main Board	1338	December 2008
Bosideng International Holdings Limited	波司登國際控股有限公司	Main Board	3998	September 2007
China Coal Energy Company Limited	中國中煤能源股份有限公司	Main Board	1898	December 2010
China Railway Construction Corporation Limited	中國鐵建股份有限公司	Main Board	1186	November 2007
Juda International Holdings Limited	鉅大國際控股有限公司	Main Board	1329	December 2013
LDK Solar Co., Ltd.	N/A	NYSE	LDK	July 2011
Powerlong Real Estate Holdings Limited	寶龍地產控股有限公司	Main Board	1238	June 2008
Sany Heavy Equipment International Holdings Company Limited	三一重裝國際控股有限公司	Main Board	631	November 2009
SITC International Holdings Company Limited	海豐國際控股有限公司	Main Board	1308	September 2010

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Dr. Ngai had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities, and the provision of professional services and support to many state-owned enterprises and red-chip companies in the areas of regulatory compliance, corporate governance and secretarial services.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. Tan Wee Seng (陳偉成), aged 58, is an independent non-executive Director of the Company. Mr. Tan was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Company's Remuneration Committee. Mr. Tan is also a non-executive director of Xtep International Holdings Limited (Stock Code: 1368), an independent non-executive director of Sa Sa International Holdings Limited (Stock Code: 178) and an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited (Stock Code: 884), the shares of all of which are listed on the Main Board of the Stock Exchange. In addition, Mr. Tan is an independent director of ReneSola Ltd (Stock Code: SOL), the shares of which are listed on the NYSE. Mr. Tan is also a board member and chairman of the finance committee of Beijing City International School, an academic institution in Beijing. Mr. Tan was an independent director and chairman of the audit committee of 7 Days Group Holdings Limited listed on the NYSE between November 2009 and July 2013 until it was privatized. He was the chairman of the special committee for the privatization of 7 Days Group Holdings Limited from October 2012 to July 2013. Mr. Tan has over 30 years of financial management, corporate finance, merger and acquisition, business management and strategy development experience. Mr. Tan has held various management and senior management positions in a number of multi-national corporations. Mr. Tan was previously the managing director of AFE Computer Services Limited, a Reuters subsidiary located in Hong Kong which was mainly engaged in domestic equity and financial information services; director of Infocast Pty Limited, a Reuters subsidiary in Australia; and the regional finance manager of Reuters East Asia. From 1999 to 2002, Mr. Tan was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. From 2003 to 2008, Mr. Tan was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Tan is a professional accountant and a fellow member of the Chartered Institute of Management Accountants in United Kingdom, and the Hong Kong Institute of Directors.

Professor Xiao Baichun (蕭柏春), aged 66, is an independent non-executive Director of the Company. Professor Xiao was appointed as an independent non-executive Director on 12 July 2010. Professor Xiao is a professional and scholar in management science. Professor Xiao has strong academic background and extensive experience in business management, which is relevant to the business operations of the Company in matters relating to corporate governance practices. From September 1990, he was with Seton Hall University as an assistant professor and was promoted to associate professor with tenure in April 1994 and to professor in March 1999. He was also the chairman of computing and decision sciences department of Seton Hall University from 1995 to 1997. Since September 1998, he has been with Long Island University pursuing his teaching career and is now a senior professor. He has also been the chairman of the department of management of Long Island University since 2003. Professor Xiao was appointed by various universities in China as either a chair professor or a visiting professor. For example, he has been a faculty member of Peking University (北京大學) since 2004, a visiting professor of Chinese University of Hong Kong (香港中文大學) since 2004, a guest professor and a director of Chinese American Center for service and operation management in Southwest Jiaotong University (西南交通大學) from 2004 to 2010, a distinguished professor of EMBA program in Fudan University (復旦大學) since 2005 and a lifetime professor of the management school of Sichuan University (四川大學) since May 2000. As a testament to his achievement, Professor Xiao received various awards in his research area. He received "University Fellowship" from Wharton School, University of Pennsylvania in 1986 and 1987 and "Outstanding Scholarship Award" from Seton Hall University in 1998 and 1999. He also received from College of Management of Long Island University "Outstanding Scholarship Award" in 2006, and "Teaching Excellence Award" from Peking University (北京大學) in 2012. Professor Xiao was named as Fulbright Senior Scholar by US Fulbright Foundation in 2012. Professor Xiao currently serves as a member of the board of directors of Nanjing University (南京大學). Professor Xiao received a bachelor's degree in mathematics from Nanjing University (南京大學) in July 1982, a MBA degree from Catholic University of Leuven, Belgium in March 1985, and his Ph.D. from Wharton School, University of Pennsylvania in December 1990.

SENIOR MANAGEMENT

Mr. Zhao Li (趙力), aged 45, joined the Group in October 2004, and since January 2014, he has been the Chief Marketing Officer and also General Manager of the brand project department of "Parenting Power", one of the four brand project departments of the Group. He was employed by Chenzhou Institute for Drug Control (郴州市藥品檢驗所) till January 2003. He joined us in October 2004 as the regional sales manager for Guangdong Province, and was promoted to be our regional sales manager for South China in December 2006, sales and marketing director for infant formula products in July 2007, and sales and marketing director in December 2007. Mr. Zhao was appointed as the general manager of our sales and marketing center in May 2010 and is now in charge of the operation of sales channels, overall marketing strategies and promotion tactics, by leveraging his abundant experience in sales and marketing. Mr. Zhao obtained a bachelor's degree in Chinese medicine from Hunan College of Traditional Chinese Medicine (湖南中醫學院) in July 1991. He has also enrolled in the EMBA courses of South China University of Technology (華南理工大學) since December 2009.

Mr. Zhu Dingping (朱定平), aged 38, joined the Group in February 2007 and has been the General Manager for the brand project department of "Biostime" of the Group since January 2014, the biggest of the four brand project departments of the Group. Before that, Mr. Zhu was our senior sales director and was mainly responsible for the overall sales affairs. Prior to joining the Group, he had over 10 years of experience in the pharmaceutical industry mainly obtained from working for companies in this industry. He was with Guangdong Minglin Pharmaceutical Co., Ltd. (廣東明林藥業有限公司) as a regional sales manager from August 1996 to December 2006. Mr. Zhu received a certificate of graduation in pharmaceutical science from China Pharmaceutical University (中國藥科大學) in July 2006 for completing the adult higher education courses. He also participated in several advanced trainings so as to improve his professional skills. For instance, in September 2004, he attended the executive training program jointly held by the Asia-Pacific Institute of Business of the Chinese University of Hong Kong (香港中文大學亞太研究所) and Nin Jion Medicine Mfy (HK) Ltd. (香港京都念慈庵總廠有限公司). He had also completed the Business Administration training courses of Lingnan (University) College, Sun Yat-Sen University (中山大學嶺南(大學)學院) and received the certificate of completion in February 2003. He is currently enrolling in the EMBA courses of Management School, Jinan University (暨南大學管理學院). He obtained a certificate of pharmacist (藥師資格證) by the Professional Titles ReformWork Leading Group of Guangdong Drug Administration (廣東省藥品監督管理局職稱改革領導小組) in March 2003.

Dr. Patrice Malard, aged 60, joined the Group as our chief scientific officer and General Manager of Biostime Pharma (a subsidiary of the Company in France) in October 2010 and was appointed as the chief technology officer of the Company as well as the general manager of the technology center of Biostime Health in June 2012. He is responsible for research and development, product quality control and technology development. He was the scientific consultant of Biostime Guangzhou from 1 March 2008 to 30 September 2010. Dr. Patrice has approximately 30 years of experience in the nutrition products industry. From October 1981 to March 1990, he worked for Gist Brocades SA as a science director in the field of industrial enzymes. From April 1990 to June 1991, he was employed by CPIAA SA, an agro-consulting group, as a manager. From June 1991 to November 1994, he was the strategy and development director of the French subsidiary of Pioneer Hi-Bred in agro-seeds. He also has worked as a director of Silab Sarl in cosmetic ingredients and sales and Business development director of Lallemand SAS Human Nutrition division for the period from February 1995 to October 2007. From March 2008 till now, he is the owner of Kloarys Développement Sarl and acted as the general manager. He obtained his Ph.D. in molecular and cellular Biology from Lille University of Science and Technology in 1981.

SENIOR MANAGEMENT (Continued)

Mr. Chen Guanghua (陳光華), aged 39, joined the Group in March 2008. He is the director in charge of Mama100 membership center and is mainly responsible for the operation and development of such center, including membership marketing, member services, membership platform, member store services. He had over 10 years of working experience in the field of information technology, especially the ERP system, CRM system and enterprise informatization, before joining the Group. From July 1997 to January 1999, he worked in Guangdong Fotao Group Co., Ltd. (廣東佛陶集團股份有限公司) as an assistant engineer. From January 1999 to February 2008, he was employed by Guangzhou Tianjian Computer System Engineering Co., Ltd. (廣州天劍計算機系統工程有限公司) and assumed positions including software engineer, department manager and deputy general manager, respectively. Mr. Chen was selected as an expert in science and technology for the database of experts by Science and Information Technology Bureau of Guangzhou (廣州市科技和信息化局) and he also won the "Science and Technology Award of Guangzhou" (廣州市科學技術獎) by Guangzhou Municipal Government in October 2006 and the "Science and Technology Award of Foshan" (佛山市科學技術進步獎) by Foshan Municipal Government in June 2006. In July 1997, Mr. Chen obtained a bachelor's degree in silicate science and engineering from Tongji University (同濟大學). In December 2004, he obtained a master's degree in computer technology from South China University of Technology (華南理工大學). He has also enrolled in the EMBA courses of China Europe International Business School's (中歐國際工商學院) since September 2011.

Ms. Laetitia Garnier (安玉婷), aged 33, joined the Group in July 2010. She is the international cooperation director of the Group and is mainly responsible for investor relations and overseas investment and mergers and acquisitions. From December 2003 to August 2010, she worked for French Trade Commission in South China and was mainly responsible for providing lobbying and operational support to French companies exporting and investing in China, especially in the field of consumer goods and health sectors. Prior to that, she also has interned with the United States Senate in Washington D.C. from January 2001 to June 2001, the Banque Populaire Group in Paris from July 2001 to September 2001 and the LVMH Group in Paris from September 2002 to March 2003. In July 2003, she obtained a master's degree in business administration and corporate strategy from Institute of Political Studies in Paris.

Mr. Cao Wenhui (曹文輝), aged 36, joined the Group in March 2007. He is the Chief Finance Officer of the Group and is mainly responsible for the overall financial and accounting affairs as well as IT management of the Group. He has approximately 9 years of experience in financial management. He worked in Guangzhou BlueMoon Co., Ltd. (廣州藍月亮有限公司) as an accounting supervisor (管理會計) until May 2003. Between July 2003 and June 2005, Mr. Cao was an assistant finance manager in Guangzhou Devotion Thermal Equipment Co., Ltd. (廣州迪森熱能設備有限公司). From July 2005 to February 2007, he was with Mead Johnson (Guangzhou) Co., Ltd. (美贊臣(廣州)有限公司) as a senior accountant. Mr. Cao obtained a bachelor's degree in accounting from Anhui Finance & Trade College (the predecessor to Anhui University of Finance and Economics) (安徽財貿學院(現為安徽財經大學)) in December 2001. He also obtained the MBA degree of Carlson School of Management, University of Minnesota (明尼蘇達大學卡爾森管理學院) in July 2013. Mr. Cao is now a non-practicing member of Guangdong Provincial Institute of Certified Public Accountants (廣東省註冊會計師協會). He also obtained the qualification of certified tax agent (註冊税務師) by the Department of Human Resources of Guangdong Province (廣東省人事廳) in June 2005.

SENIOR MANAGEMENT (Continued)

Mr. Hu Xiaocheng (胡曉成), aged 37, joined the Group in November 2004 and has been the director of the national supermarkets and key accounts for the brand project department of "Biostime" of the Group since January 2014, the biggest of the four major brand project departments of the Group. Before that, Mr. Hu was our retail sales organization channel director. His experience is mainly in the sector of marketing and sales. He worked as a sales specialist for the Beijing s ales branch of Jiangxi Tecom Science Co., Ltd. (江西特康科技有限公司) from 2000 to 2003, and was mainly responsible for selling products to hospital clients in north China. He joined us as the manager of our Shangrao sales office in Jiangxi Province. Due to his sound working performance, he was promoted to be our sales manager for Ningbo City in February 2005, regional sales manager for Shanghai in February 2006 and senior manager for sales administration in February 2007. Mr. Hu was appointed as our senior key accounts manager in May 2010 and promoted to be our retail sales organization channel director in September 2011 and by leveraging his experience in marketing and sales, he is now responsible for our sales channel of retail sales organizations. Mr. Hu received a junior college diploma in computer accounting from Jiangxi Radio and TV University (江西廣播電視大學) in July 1999. He has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since September 2010.

Mr. Xu Lesheng (徐樂生), aged 39, is the strategy and development director of the Group and is mainly responsible for our strategies and planning affairs. He has been with the Group since August 2001 and was appointed as our strategy and development director in September 2011. Before joining the Group, Mr. Xu had rich experience in the pharmaceutical industry, serving in different positions in product development, marketing and corporate strategic planning. From November 1998 to June 1999, he was employed by Xiamen Feipeng Industrial Co., Ltd. (廈門飛鵬工業有限公司). From June 1999 to March 2001, he worked in Nanjing Cuccess Pharmaceutical Co., Ltd. (南京臣功製藥有限公司). Mr. Xu obtained a bachelor's degree in chemical engineering and biochemistry engineering from Huaqiao University (華僑大學) in July 1998. He has also enrolled in the EMBA courses of graduate school of Xiamen University (廈門大學) since September 2010.

Mr. Xu Zhenjie (許振傑), aged 36, is the human resource director of the Group and is responsible for the overall human resource affairs. He has approximately 10 years of working experience in human resource management. From July 2001 to March 2006, he worked in the strategy development department and then was a human resource and administration manager in Guangzhou Ouya Mattress & Furniture Co., Ltd. of Symbol Group (廣州歐亞床墊家具有限公司). Between March and May of 2006, he was with Guangzhou Baiyun Tianjun International MediaCo., Ltd. (廣州白雲天駿國際傳媒有限公司) as a human resource manager. He joined the Group in December 2006 and was appointed human resource director in September 2011. Mr. Xu obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2001. He has also enrolled in the EMBA courses of Carlson School of Management, University of Minnesota (明尼蘇達大學卡爾森管理學院) since September 2010. Mr. Xu has participated in several professional training courses. For instance, senior human resources manager training program by the Professor& Manager Institute of Sun Yat-Sen University (中山大學教授經理研究會) from 30 March 2002 to 14 April 2002, Tsinghua project management training by Aura International Management Training Centre in December 2008 and human resources management program by China Europe International Business School (中歐國際工商學院) in December 2008. He received the occupational qualification certificate of the first level of enterprise human resource management consultant (企業人力資源管理師) in December 2009 and the certificate of talent assessment consultant (人才評測師) in May 2006.

SENIOR MANAGEMENT (Continued)

Mr. Xiong Huoyan (熊火焰), aged 42, has been the director of the national education consulting business under the brand project department of "Parenting Power" as of January 2014, one of the four major brand project departments of the Group. Before that, Mr. Xiong was our promotion director and was mainly responsible for promotion affairs. He joined the Group in December 2001 as the business representative for Guangdong Province and has been with the Group since then. He has over 10 years of experience in product promotion. He was promoted to be our promotion manager in March 2006, senior promotion manager in March 2008 and promotion director in September 2011, and is now mainly responsible for promotional affairs of the Group. Mr. Xiong received a certificate of graduation in thermal power engineering after three years' study in the department of Material Science & Engineering of Jingdezhen Ceramic Institute (景德鎮陶瓷學院) in July 1996. He has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since September 2010.

Ms. Xu Sa (許颯), aged 41, is the director of the research and development department of our Group. She joined the Group in July 2012 as the senior manager of the research and development department and was promoted to be the director of the research and development in January 2014. Ms. Xu obtained her bachelor's degree in food science and engineering in 1995 and master's degree in storage and processing of agricultural products in 1998 in Huazhong Agricultural University (華中農業大學). Ms. Xu worked as a teacher in the College of Food Science of China Agriculture University (中國農業大學) from August 1998 to July 2000. After that, Ms. Xu pursued her overseas study majoring in food science and technology in Iowa State University and successfully obtained her PHD degree in 2004. From November 2004 to November 2007, Ms. Xu worked as the postdoctoral researcher in the food science and nutrition department in University of Minnesota. Prior to joining the Group, Ms. Xu was employed by the research and development department of Land O'Lakes Inc. (the U.S. Company) as a senior scientist from November 2007 to July 2012.

Mr. Zhu Hui (朱輝), aged 41, is the director of the public affairs department of the Group. Mr. Zhu joined the Group in November 2007 and worked as the manager for the central and western regions of the promotion department till April 2010 and then promotion manager for the southwest and headquarter areas from April 2010 to May 2012. He was promoted to be the senior manager of the public affairs department in May 2012 followed by the director of the public affairs department in January 2014. Mr. Zhu studied in Chongqing Medical University (重慶醫科大學) from September 1991 to July 1996 and received his bachelor's degree in clinical medicine in 1996. After graduation, he was employed by Sichuan Forestry Center Hospital (四川省林業中心醫院) as a doctor at the surgery department until July 1998. From August 1998 to August 2000, he was with Beaufour-Ipsen (Tianjin) Pharmaceutical Co., LTD. (博福-益普生（天津）制藥有限公司) as the representative in the sales department. From September 2000 to July 2002, Mr. Zhu worked for Hainan Xin Wanhe Pharmaceutical Co., Ltd (海南新萬和藥業有限公司) as the officer of the southwest area. Prior to joining the Group, Ms. Zhu worked at the Sichuan office of Beijing Hanmi Pharm. Co.,Ltd. (北京韓美藥品有限公司) as a sales manager from September 2002 to October 2007. Mr. Zhu has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since October 2012.

Ms. Chen Yu (陳瑜), aged 37, is the director of the supply chain department of the Group. She joined the Group in April 2013 as the senior manager of the international supply chain department and was promoted to be the director of the department in January 2014. Ms. Chen obtained her bachelor's degree in technology information in Wuhan University (武漢大學) in July 1998. After graduation, she worked as a teacher at the Public Security Department of the Fujian Police College (福建警察學院), formerly known as the Fujian Public Security Technical College (原福建公安高等專科學校). After that, Ms. Chen moved to the U.S.. From July 2004 to May 2005, she worked for Nielsen Media Research at the field operations department as a membership representative. Ms. Chen was employed by Asian Bank and worked as an administrative assistant in the administrative department from September 2005 to January 2006. After that, she joined Material Culture and served as an assistant buyer in the Procurement Department until March 2007. From April 2007 to March 2013, Ms. Chen worked as the operations director at the operations department of Wei East, Inc.

SENIOR MANAGEMENT (Continued)

Ms. He Lixia (何利霞), aged 36, is the director of the brand project department of "BMcare", one of the four brand project departments of the Group. Ms. He joined us in April 2008 as the offtrade sales manager for south China area, and was promoted to be the national offtrade sales manager of the sales management department in April 2009, manager of the channel marketing department in January 2011, senior manager of the baby products business department in October 2011, senior manager of the sales management department for "BM care" business in May 2012 and director of the brand project department of "BM care" in January 2014. Ms. He received her bachelor's degree in international enterprise management from South China University of Technology (華南理工大學) in 2000. After graduation, she worked at the Sales Department as a business supervisor at Guangzhou Ideal Information Industry (Group) Co., Ltd. (廣州理想信息產業有限公司). From August 2001 to March 2005, she was employed by Avon Products (China) Co., Ltd. (雅芳（中國）有限公司) and worked as the manager of the sales department for the Guangzhou district. From April 2005 to August 2005, she was with Wyeth Pharmaceutical Co., Ltd (惠氏制藥有限公司) as the key accounts manager for the south China region in the health medicine department. From September 2005 to March 2008, Ms. He was the sales director in the sales department of Guangzhou Yixin Trading Company Ltd. (廣州億鑫貿易有限公司). Ms. He has also enrolled in the EMBA courses of Lingnan College of Sun Yat-Sen University (中山大學) since December 2012.

Mr. Liu Shifeng (劉世鋒), aged 35, is the director of the brand project department of "ADIMIL(素加)", one of the four brand project departments of the Group. He joined the Group in May 2004 as the supervisor in charge of Shaoxin office and was promoted to be the provincial manager of Hubei province in August 2005, manager of the Hubei and Henan provinces in August 2006, director of the Hubei and Henan provinces in July 2012, area director for Hubei province in 2013, and director of the brand project department of "ADIMIL" in January 2014. Mr. Liu studied in the Jinggangshan Medical College (井崗山醫學高等專科學校) majoring in clinical medicine from September 1997 to July 2000. After graduation, he was employed by the Guangzhou Division of Wangson Biotechnology Groups Inc. (美國華盛集團廣州分部) as an OTC supervisor from August 2000 to April 2001. Mr. Liu worked in Guangzhou Xiangxue Pharmaceutical Co., LTD. (廣州市香雪制藥) as an OTC supervisor in 2001 and was promoted to be a district supervisor in 2002. Mr. Liu has also enrolled in the EMBA courses of management school of Xiamen University (廈門大學) since September 2011.

JOINT COMPANY SECRETARIES

Ms. Wong Tak Yee (黃德儀), aged 57, was appointed as one of the joint company secretaries of the Company and authorised representative of the Company on 12 July 2010. Ms. Wong is a director of the Corporate Services Division of Tricor Services Limited. Prior to joining Tricor Group in 2000, she was a senior manager of the company secretarial services department at Deloitte Touche Tohmatsu in Hong Kong. Ms. Wong is a Chartered Secretary and a fellow member of both The Institute of Chartered Secretaries and Administrators and the HKICS. She also received a master's degree of arts in English for the professions from The Hong Kong Polytechnic University in 2009 and holds the Practitioner's Endorsement Certificate issued by the HKICS. Ms. Wong has over 25 years of experience in providing corporate secretarial services.

Ms. Yang Wenyun (楊文筠), aged 30, joined the Group in August 2005 and was appointed as one of the joint company secretaries of the Company on 12 July 2010. She was also the senior manager of the Listing Affairs and Risk Management Department and was promoted to be the director of the Department in January 2014. Ms. Yang started her professional career with the Group and has obtained substantial experience in administration, corporate governance, legal affairs, risk management and public relations over the past eight years with the Group. From August 2005 to December 2008, she worked as an assistant of public affairs and was mainly responsible for the legal affairs and public relations of the Group. Concurrently, being an assistant to the general manager since November 2006, she was responsible for part of administrative affairs of the Group. From December 2008 to February 2010, she was promoted to be the legal manager of the Group and was responsible for the overall legal affairs and public relations. In February 2010, she assumed the responsibility of leading the risk control department. Ms. Yang is now mainly in charge of administrative affairs, listing affairs, legal affairs and internal audit of the Group. Ms. Yang obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2005.

SENIOR MANAGEMENT (Continued)

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

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2013 Interim Report of the Company are set out below:

Name of Director	Details of Changes
Luo Fei	1. Appointed as a director of the Company's directly wholly-owned subsidiary Mama100 International Holdings Limited (a limited liability company incorporated in the British Virgin Islands on 27 August 2013) ("Mama100 Holdings") on 27 August 2013
	2. Appointed as a director of the Company's indirectly wholly-owned subsidiary Mama100 International Investment Limited (a limited liability company incorporated in the Cayman Islands on 5 September 2013) ("Mama100 Investment") on 5 September 2013
	3. Appointed as a director of the Company's indirectly wholly-owned subsidiary Mama100 Hong Kong Limited (a limited liability company incorporated in Hong Kong on 25 September 2013) ("Mama100 Hong Kong") on 25 September 2013
	4. Ceased to be a director of the Company's directly wholly-owned subsidiary Biostime (Guangzhou) Health Products Limited (a limited liability company incorporated in the People's Republic of China on 25 December 2006) ("Biostime Health") on 7 November 2013 and appointed as the supervisor of Biostime Health on 7 November 2013
	5. Appointed as a director of the Company's indirectly wholly-owned subsidiary Changsha Yingke Nutrition Products Company Limited (長沙營可營養品有限公司) (a limited liability company incorporated in the People's Republic of China on 30 December 2013) ("Changsha Yingke") on 30 December 2013
Kong Qingjuan	1. Ceased to be the supervisor of Biostime Health on 7 November 2013 and appointed as a director of Biostime Health on 7 November 2013
	2. Appointed as a director and the general manager of Changsha Yingke on 30 December 2013

CHANGES IN INFORMATION OF DIRECTORS (Continued)

Name of Director	Details of Changes
Luo Yun	1. Appointed as a director of Mama100 Holdings on 27 August 2013 2. Appointed as a director of Mama100 Investment on 5 September 2013 3. Appointed as a director of Mama100 Hong Kong on 25 September 2013
Chen Fufang	1. Appointed as a director of Mama100 Holdings on 27 August 2013 2. Appointed as a director of Mama100 Investment on 5 September 2013 3. Appointed as a director of Mama100 Hong Kong on 25 September 2013
Ngai Wai Fung	Appointed as an independent non-executive director and chairman of the audit committee and member of the nomination committee and remuneration committee of Juda International Holdings Limited on 21 December 2013, a company listed on the Main Board of the Stock Exchange (Stock Code: 1329)

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule13.51B(1) of the Listing Rules.

The Board hereby presents its report and the audited financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group and is also engaged in overseas purchase. The Group is principally engaged in providing premium pediatric nutritional and baby care products to high-end mothers. Details of the principal activities of the Company's subsidiaries are set out in note 22 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2013 are set out in note 22 to the financial statements.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2013 are set out in the consolidated financial statements on pages 67 to 138 of the Annual Report. An interim dividend of HK$0.25 per ordinary share and an interim special dividend of HK$0.19 per ordinary share in respect of the six months ended 30 June 2013 were paid to the shareholders on 27 September 2013. The Directors recommend the payment of a final dividend of HK$0.44 per ordinary share and a final special dividend of HK$0.33 per ordinary share for the year ended 31 December 2013 to be paid on or about Tuesday, 27 May 2014 to the shareholders whose names appear on the register of members of the Company on Friday, 16 May 2014. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

The final dividend of HK$0.44 per ordinary share and the final special dividend of HK$0.33 per ordinary share are subject to approval by the shareholders in the forthcoming annual general meeting of the Company to be held on Thursday, 8 May 2014 (the "2014 AGM"). Such dividends will be distributed from the retained profits of the Company. Details of the dividends for the year ended 31 December 2013 are set out in note 12 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2014 AGM

The register of members of the Company will be closed from Tuesday, 6 May 2014 to Thursday, 8 May 2014, 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 2014 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 Monday, 5 May 2014.

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

The register of members of the Company will be closed from Wednesday, 14 May 2014 to Friday, 16 May 2014, 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 Tuesday, 13 May 2014.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2013 are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Group during the year ended 31 December 2013 are set out in note 32 to the financial statements.

RESERVE

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2013 are set out in note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's reserves, including the share premium account and contributed surplus and retained profits, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to approximately RMB4,185.5 million, of which approximately RMB209.8 million and RMB157.4 million have been proposed as a final dividend and a final special dividend respectively for the year. Details of the reserves of the Company as at 31 December 2013 are set out in note 35 to the financial statements.

CHARITABLE DONATIONS

The Group's donation to charity includes the donation of RMB0.1 for each box or can of any of the Group's products sold to Biostime China Foundation for Mother and Child established by the Group in cooperation with the Chinese Red Cross Foundation since 2007. For each of the three years ended 31 December 2011, 2012 and 2013, the Group's donations to charity were RMB1.6 million, RMB2.7 million and RMB3.8 million, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on pages 139 to 140. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases by the Group from the largest supplier amounted to RMB995.6 million in 2013, accounting for 50.8% of the total purchases of the Group for the year, while the purchases made from the five largest suppliers amounted to RMB1,687.8 million, accounting for 86.1% of the total purchases of the Group for the year. None of the Directors or their associates or any of the shareholders of the Company had any interest in any of the five largest suppliers of the Group.

DIRECTORS

The Directors of the Company during the year ended 31 December 2013 and up to the date of the Annual Report were as follows:

Executive Directors

Mr. Luo Fei
Ms. Kong Qingjuan

Non-executive Directors

Dr. Zhang Wenhui
Mr. Wu Xiong *(re-appointed on 9 May 2013)*
Mr. Luo Yun *(re-appointed on 9 May 2013)*
Mr. Chen Fufang *(re-appointed on 9 May 2013)*

Independent non-executive Directors

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

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun, all the independent non-executive Directors, shall retire from office by rotation and being eligible, offer themselves for re-election at the 2014 AGM.

DIRECTORS' SERVICE CONTRACTS

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

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

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

None of the Directors who are proposed for re-election at the 2014 AGM has a service contract which is not determinable within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF THE DIRECTORS

Details of remuneration of the Directors during the year ended 31 December 2013 are set out in note 9 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 37 to 49 of the Annual Report.

EMOLUMENT POLICY

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

None of the Directors waived any emoluments during the year ended 31 December 2013.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2013, the interests and short positions of the Directors and the chief executives of the Company in the share capital, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Name of Director	**Capacity/Nature of interest**	**Long/Short position**	**Shares or underlying shares (under equity derivatives of the Company)**	**Approximate percentage of interest in the Company** *(Note 5)*
Luo Fei	Beneficial owner	Long position	621,239 *(Note 1)*	0.1031%
	Beneficial owner	Long position	198,000 *(Note 2)*	0.0329%
Kong Qingjuan	Beneficial owner	Long position	381,558 *(Note 1)*	0.0634%
	Beneficial owner	Long position	102,500 *(Note 3)*	0.0170%
Ngai Wai Fung	Beneficial owner	Long position	100,000 *(Note 4)*	0.0166%
Tan Wee Seng	Beneficial owner	Long position	100,000 *(Note 4)*	0.0166%
Xiao Baichun	Beneficial owner	Long position	100,000 *(Note 4)*	0.0166%

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

Note 2: These are the awarded shares (the "Awarded Shares") granted by the Company under the Share Award Scheme, including 97,000 Awarded Shares granted on 30 March 2012, 55,000 Awarded Shares granted on 3 July 2012, 30,500 Awarded Shares granted on 25 March 2013 and 15,500 Awarded Shares granted on 21 October 2013. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" below.

Note 3: These are the Awarded Shares granted by the Company under the Share Award Scheme, including 46,000 Awarded Shares granted on 30 March 2012, 29,000 Awarded Shares granted on 3 July 2012, 18,000 Awarded Shares granted on 25 March 2013 and 9,500 Awarded Shares granted on 21 October 2013. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" below.

Note 4: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 16 December 2011. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" below.

Note 5: As at 31 December 2013, the total number of the issued shares of the Company was 602,294,000.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2013.

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2013, based on the Company's instructions, the trustee of the Share Award Scheme adopted by the Company on 28 November 2011 has purchased a total of 2,228,000 ordinary shares of the Company on the Stock Exchange at a total consideration of about HK$79,844,000.

Save as disclosed above, 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 2013.

SHARE OPTION SCHEMES

The Company has adopted two share option schemes, pursuant to which the Company is entitled to grant options prior to and after the listing of the Company on the Main Board of the Stock Exchange. The details of both share option schemes are as follows:

Share Option Scheme

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

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

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

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

SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

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

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

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

During the year ended 31 December 2013, no Share Option was granted to any grantees (the "Grantees") under the Share Option Scheme.

Particulars and movements of Share Options under the Share Option Scheme during the year ended 31 December 2013 by category of Grantees were as follows:

			Number of Share Options			
Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share	Outstanding as at 1 January 2013	Granted during the year ended 31 December 2013	Lapsed during the year ended 31 December 2013	Outstanding as at 31 December 2013
Directors						
Dr. Ngai Wai Fung	16/12/2011	HK$12.12	100,000	–	–	100,000
Mr. Tan Wee Seng	16/12/2011	HK$12.12	100,000	–	–	100,000
Prof. Xiao Baichun	16/12/2011	HK$12.12	100,000	–	–	100,000
Sub-total			300,000	–	–	300,000
Other employees	09/06/2011	HK$15.312	760,890	–	(55,972)	704,918
	29/11/2011	HK$11.52	1,002,448	–	(254,653)	747,795
	01/06/2012	HK$19.64	676,270	–	(93,691)	582,579
	07/12/2012	HK$24.70	1,319,724	–	(136,363)	1,183,361
Total			4,059,332	–	(540,679)	3,518,653

SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

All Share Options granted since the adoption of the Share Option Scheme till 31 December 2013 shall vest in the Grantees in accordance with the timetable below with a 6-year exercise period (for this purpose, the date or each such date on which the Share Options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
Any time after the third anniversary of 17 December 2010	30% of the total number of Share Options granted
Any time after the fourth anniversary of 17 December 2010	30% of the total number of Share Options granted
Any time after the fifth anniversary of 17 December 2010	40% of the total number of Share Options granted

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

No Share Options granted under the Share Option Scheme were exercised or cancelled during the year ended 31 December 2013.

Pre-IPO Share Option Scheme

The purpose of the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") is to give the Directors, senior management, employees and business partners of the Company an opportunity to have a personal stake in the Company and help motivate the Directors, senior management, employees and business partners to optimize their performance and efficiency to the Group and/or to reward them for their past contributions, and also to retain or otherwise maintain on-going relationships with them whose contributions are important to the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by a written resolution of the sole Shareholder of the Company dated 12 July 2010, are substantially the same as the terms of the Share Option Scheme except that:

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

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

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

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

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

SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

A total of 11,150,249 shares were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HK$1 paid by each grantee. During the year ended 31 December 2013, 1 Director was no longer eligible for Pre-IPO Share Options due to his re-designation from an executive Director to a non-executive Director and his resignation from his other positions in the Group in 2012 and 14 employees were no longer eligible for Pre-IPO Share Options due to such employees' failure to meet performance target or retirement, and as a result, a total of 772,152 Pre-IPO Share Options became lapsed accordingly. Particulars and movements of Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the year ended 31 December 2013 by category of grantees are set out below:

	Number of Pre-IPO Share Options		
Category of grantees	**Outstanding as at 1 January 2013**	**Lapsed during the year ended 31 December 2013**	**Outstanding as at 31 December 2013**
Directors			
Mr. Luo Fei	621,239	–	621,239
Ms. Kong Qingjuan	381,558	–	381,558
Dr. Zhang Wenhui	404,795	(404,795)	–
Sub-total	1,407,592	(404,795)	1,002,797
Others			
Senior management members	2,655,665	–	2,655,665
Other employees	5,787,618	(367,357)	5,420,261
Business partners	100,000	–	100,000
Sub-total	8,543,283	(367,357)	8,175,926
Total	9,950,875	(772,152)	9,178,723

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were exercised or cancelled during the year ended 31 December 2013.

SHARE AWARD SCHEME

The share award scheme (the "Share Award Scheme") of the Company was adopted by the Board on 28 November 2011 (the "Adoption Date") and amended by the Board on 30 March 2012. The purpose of the Share Award Scheme is to recognize the contributions of certain Directors, senior management and employees of the Company and its subsidiaries and to retain and motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

SHARE AWARD SCHEME (Continued)

Subject to the terms of the Share Award Scheme and the Listing Rules, the Board may at any time make an offer to any eligible person it may in its absolute discretion select to accept the grant of an award over such number of shares as it may determine. Shares will be acquired by the independent trustee of the Share Award Scheme on the market out of the funds contributed by the Company and be held in trust for the relevant participants in accordance with the provisions of the Share Award Scheme. The vesting period shall, in any event, be no longer than ten years.

The Board shall not make any further award which will result in the number of shares awarded by the Board under the Share Award Scheme would represent in excess of 10% of the issued share capital of the Company as at the Adoption Date. In any event, the unvested shares held by the trustee at any time shall be less than 5% of the issued share capital of the Company. The maximum number of shares which may be awarded to a participant under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

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

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

During the year ended 31 December 2013, the Board resolved to pay RMB31,000,000 and RMB30,000,000 to the trustee of the Share Award Scheme on 8 January 2013 and 27 August 2013 respectively, so that the trustee would then purchase and grant relevant shares to certain grantees under the Share Award Scheme.

During the year ended 31 December 2013, based on the Company's instructions, the trustee of the Share Award Scheme has purchased a total of 2,228,000 ordinary shares of the Company on the Stock Exchange at a total consideration of about HK$79,844,000.

Summary of particulars of the shares awarded under the Share Award Scheme (the "Awarded Shares") since the Adoption Date until 31 December 2013 is as follows:

				Number of Awarded Shares		
Date of grant	Number of Awarded Shares granted	Approximate percentage of the Company's share capital as at the Adoption Date	Vesting date	Vested as at 31 December 2013	Forfeited as at 31 December 2013	Outstanding (held by the trustee for the grantees) as at 31 December 2013
3 July 2012	1,734,739 *(Note 1)*	0.288%	3 July 2013	1,701,008	(33,731)	–
25 March 2013	1,239,887 *(Note 2)*	0.206%	25 March 2014	–	(59,500)	1,180,387
21 October 2013	817,394 *(Note 3)*	0.136%	30 November 2014	–	–	817,394
Total	3,792,020	0.630%		1,701,008	(93,231)	1,997,781

Note 1: Among these Awarded Shares granted, 55,000 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 29,000 Awarded Shares were granted to Ms. Kong Qingjuan, the Chief Operating Officer and an executive Director.

Note 2: Among these Awarded Shares granted, 30,500 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 18,000 Awarded Shares were granted to Ms. Kong Qingjuan, the Chief Operating Officer and an executive Director.

SHARE AWARD SCHEME (Continued)

Note 3: Among these Awarded Shares granted, 15,500 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 9,500 Awarded Shares were granted to Ms. Kong Qingjuan, the Chief Operating Officer and an executive Director.

Further details in relation to the Share Award Scheme are set out in note 34 to the financial statements of this Annual Report.

2013 SHARE AWARD SCHEME

The Board also adopted a 2013 share award scheme (the "2013 Share Award Scheme") on 29 November 2013, which is implemented in parallel with the Share Award Scheme. The purposes of the 2013 Share Award Scheme are to recognize the contributions by certain employees of the Group, to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The Board may from time to time at its absolute discretion select any employee who is eligible to participate in the 2013 Share Award Scheme (the "Selected Employee") or a group of Selected Employees for participation in the 2013 Share Award Scheme. Subject to the limit on the size of the 2013 Share Award Scheme as set out below, the Board shall (a) determine a number of awarded shares which it wishes to be the subject of an award under the 2013 Share Award Scheme, or (b) instruct the trustee to allocate Returned Shares (as defined below) as awarded shares to any Selected Employee(s).

For the purpose of satisfying awards granted under the 2013 Share Award Scheme, awarded shares shall be allotted and issued at par value by the Company, by using the general mandate granted to the Board by the shareholders of the Company in general meetings of the Company from time to time, unless separate shareholders' approval is obtained in a general meeting of the Company.

Subsequent to the grant of awards, the Board shall pay (or cause to be paid) sufficient funds to the trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside for the subscription of the relevant awarded shares. After receiving the funds from the Company, the trustee shall apply the same towards the subscription of awarded shares at par at such time as agreed between the trustee and the Board from time to time but in any event no later than 40 business days before the vesting of the relevant awarded shares.

Such awarded shares shall then be held by the trustee for the Selected Employees in accordance with the provisions of the 2013 Share Award Scheme prior to vesting. The Trustee shall not exercise any voting right attached in respect of any awarded shares held in trust by it under the 2013 Share Award Scheme (including but not limited to the awarded shares and any bonus shares and script shares derived from them).

Where, awarded shares (the "Returned Shares") which are referable to a Selected Employee, do not vest in accordance with the specified procedures, then the trustee shall hold such Returned Shares and any income deriving from it exclusively for the benefit of all or one or more of the Selected Employees in such manners and under such conditions in accordance with the instructions from the Board.

The Board shall not make any further award which will result in the number of shares awarded by the Board under the 2013 Share Award Scheme would represent in excess of 1.5% of the issued share capital of the Company as at the adoption date of the same. No sum of money shall be set aside and no awarded shares shall be subscribed pursuant to the 2013 Share Award Scheme, nor any amounts paid to the trustee for the purpose of making such a subscription, if, as a result of such subscription, the number of awarded shares administered under the 2013 Share Award Scheme would represent in excess of 1% of the issued share capital of the Company as at the adoption date of the same, provided that awarded shares which have been transferred to Selected Employees upon vesting shall be left out of account when ascertaining such amount and provided further that the Board may resolve to increase such limit at its sole discretion.

The maximum number of awarded shares which may be subject to award(s) to a single Selected Employee at any one time shall not in aggregate exceed 1% of the issued share capital of the Company as at the adoption date of the 2013 Share Award Scheme.

2013 SHARE AWARD SCHEME (Continued)

Subject to any early termination as may be determined by the Board, the 2013 Share Award Scheme shall be valid and effective for a term of five years commencing on the adoption date of the same.

Details of the 2013 Share Award Scheme are set out in the Company's announcement dated 29 November 2013. No awarded share was granted under the 2013 Share Award Scheme during the period from the adoption date of the 2013 Share Award Scheme to 31 December 2013.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 31 December 2013, the following person, other than any Director or the chief executive of the Company, was the substantial shareholder (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	**Capacity/Nature of interest**	**Long/Short position**	**Number of shares**	**Approximate percentage of shareholding** *(Note 1)*
Biostime Pharmaceuticals (China) Limited *(Note 2)*	Beneficial owner	Long position	450,000,000	74.7%

Note 1: As at 31 December 2013, the total number of the issued shares of the Company was 602,294,000.

Note 2: As at 31 December 2013, Biostime Pharmaceuticals (China) Limited ("Biostime Pharmaceuticals") is owned as to 28.16% by Mr. Luo Fei, 26.00% by Mr. Wu Xiong, 19.55% by Mr. Luo Yun, 11.90% by Mr. Chen Fufang, 9.99% by Dr. Zhang Wenhui and 4.40% by Ms. Kong Qingjuan.

Save as mentioned above, as at 31 December 2013, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2013.

CONTRACTS OF SIGNIFICANCE

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

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders of the Company has confirmed to the Company of his/its compliance with the non-compete undertakings provided to the Company under the Deed of Non-Competition (as defined in the prospectus of the Company dated 3 December 2010 (the "Prospectus")). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders during the year ended 31 December 2013.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2013 and up to the date of the Annual Report, none of the Directors of the Company had any direct or indirect interest in a business which competed or might compete with the business of the Group as required to be disclosed under Rule 8.10 of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2013, below transactions between BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou"), the Company's directly wholly-owned subsidiary and Guangzhou Biohope Co., Ltd. ("Guangzhou Biohope"), the Company's connected person constituted continuing connected transactions under Chapter 14A of the Listing Rules.

Relationship with Guangzhou Biohope

Guangzhou Biohope is owned as to 52.8% by Mr. Luo Fei, 27.2% by Mr. Luo Yun and 20% by Mr. Chen Fufang, all of whom are Directors and among whom Mr. Luo Fei and Mr. Luo Yun are brothers. Mr. Luo Fei is an executive Director and the Chief Executive Officer of the Company and hence a connected person of the Company. As Mr. Luo Fei can exercise more than 30% of the voting power at general meetings of Guangzhou Biohope, Guangzhou Biohope is an associate of Mr. Luo Fei and therefore a connected person of the Company under Rule 14A.11(4) of the Listing Rules.

Framework Purchase Agreement

On 13 September 2012, BMcare Guangzhou entered into a framework purchase agreement (the "Framework Purchase Agreement") with Guangzhou Biohope in relation to the purchase of certain raw materials from Guangzhou Biohope for the production of a new series of baby care products by BMcare Guangzhou. The term of the Framework Purchase Agreement was from 13 September 2012 to 31 December 2013. The annual caps for the transactions contemplated under the Framework Purchase Agreement were RMB3,500,000 and RMB15,000,000 for the financial years 2012 and 2013 respectively. As certain of the applicable percentage ratios (other than the profits ratio) as defined in Chapter 14 of the Listing Rules in respect of such annual caps were more than 0.1% but all of the relevant applicable percentage ratios were less than 5%, and that the transactions contemplated under the Framework Purchase Agreement were on normal commercial terms (or on terms no less favorable to the Group than terms made available from independent third parties (as defined in the Listing Rules)), these continuing connected transactions were subject to the reporting, annual review and announcement requirements but were exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Further details in relation to the Framework Purchase Agreement are set out in the Company's announcement dated 13 September 2012.

CONTINUING CONNECTED TRANSACTIONS (Continued)

Annual review of the continuing connected transactions

The independent non-executive Directors of the Company have reviewed the continuing connected transactions between BMcare Guangzhou and Guangzhou Biohope under the Framework Purchase Agreement and confirmed that during the year ended 31 December 2013, these transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to (or from) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Details of these continuing connected transactions during the year ended 31 December 2013 are set out in note 41 to the financial statements.

Renewal of continuing connected transactions

As the Framework Purchase Agreement expired on 31 December 2013, on 27 December 2013, BMcare Guangzhou entered into a new framework purchase agreement (the "Renewed Framework Purchase Agreement") with Guangzhou Biohope to renew the Framework Purchase Agreement for a period of two years commencing from 1 January 2014 to 31 December 2015. The annual caps for the transactions contemplated under the Renewed Framework Purchase Agreement are RMB10,000,000 and RMB15,000,000 for the financial years 2014 and 2015, respectively. As certain of the applicable percentage ratios (other than the profits ratio) as defined in Chapter 14 of the Listing Rules in respect of such annual caps are more than 0.1% but all of the relevant applicable percentage ratios are less than 5%, and that the transactions contemplated under the Renewed Framework Purchase Agreement are on normal commercial terms (or on terms no less favorable to the Group than terms made available from independent third parties (as defined in the Listing Rules)), these renewed continuing connected transactions are subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Further details in relation to the Renewed Framework Purchase Agreement are set out in the Company's announcement dated 27 December 2013.

Save as disclosed herein, no other continuing connected transactions have been entered into by members of the Group.

AUDIT COMMITTEE

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

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

AUDIT COMMITTEE (Continued)

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2013 and the annual results for the year ended 31 December 2013, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2013 and the annual report for the year ended 31 December 2013, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the Company Code and the Model Code during the year ended 31 December 2013.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this Annual Report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended 31 December 2013.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to 31 December 2013, the Group issued zero coupon convertible bonds (the "Convertible Bonds") due 2019 in the aggregate principal amount of HK$3,100,000,000 on 20 February 2014. The Convertible Bonds became listed on the Stock Exchange since 21 February 2014. 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.

Further details of the Convertible Bonds issue are set out in the Company's announcements dated 14 January 2014, 13 February 2014 and 20 February 2014.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 22 to 36 of the Annual Report.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2013.

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

AUDITORS

Ernst & Young retires and a resolution for their reappointment as external auditors of the Company will be proposed at the 2014 AGM.

On behalf of the Board
Luo Fei
Chairman

Hong Kong, 25 March 2014

EY 安永

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

We have audited the consolidated financial statements of Biostime International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 67 to 138, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

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

25 March 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	5	**4,561,299**	3,381,901
Cost of sales		**(1,586,179)**	(1,152,955)
Gross profit		**2,975,120**	2,228,946
Other income and gains	5	**106,397**	56,934
Selling and distribution costs		**(1,513,046)**	(1,077,721)
Administrative expenses		**(177,313)**	(116,871)
Finance costs	6	**(10,589)**	(2,106)
Fine on the violation of Anti-Monopoly Law	7	**(162,900)**	–
Other expenses		**(55,573)**	(38,609)
PROFIT BEFORE TAX	8	**1,162,096**	1,050,573
Income tax expense	10	**(341,381)**	(307,467)
PROFIT FOR THE YEAR		**820,715**	743,106
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(823)**	5,143
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**819,892**	748,249
Profit attributable to owners of the parent	11	**820,715**	743,106
Total comprehensive income attributable to owners of the parent		**819,892**	748,249
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**1.37**	1.24
Diluted		**1.34**	1.22

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	322,022	77,074
Prepaid land lease payments	15	84,261	20,147
Goodwill	16	143,000	–
Intangible assets	17	6,109	1,151
Bonds receivable	18	98,092	–
Loans receivable	19	85,497	110,484
Deposits	20	14,755	12,795
Held-to-maturity investment	21	21,240	–
Time deposits	26	854,874	942,062
Deferred tax assets	30	123,892	78,688
Total non-current assets		1,753,742	1,242,401
CURRENT ASSETS			
Inventories	23	971,893	523,267
Trade and bills receivables	24	15,182	372
Prepayments, deposits and other receivables	25	111,395	85,689
Due from directors	40	2,000	–
Loans receivable	19	27,090	12,597
Derivative financial instrument	19	5,936	–
Restricted bank deposit	26	70,000	–
Cash and cash equivalents	26	1,662,836	1,669,066
Total current assets		2,866,332	2,290,991
CURRENT LIABILITIES			
Trade and bills payables	27	361,634	263,118
Other payables and accruals	28	719,838	443,817
Interest-bearing bank loans	29	750,613	270,526
Tax payable		212,725	155,790
Total current liabilities		2,044,810	1,133,251
NET CURRENT ASSETS		821,522	1,157,740
TOTAL ASSETS LESS CURRENT LIABILITIES		2,575,264	2,400,141
NON-CURRENT LIABILITIES			
Deferred tax liabilities	30	59,671	77,489
Net assets		2,515,593	2,322,652
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	5,161	5,161
Reserves	35(a)	2,143,222	1,903,534
Proposed dividends	12	367,210	413,957
Total equity		2,515,593	2,322,652

Luo Fei
Director

Kong Qingjuan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		Attributable to owners of the parent											
	Notes	Issued capital RMB'000	Share premium account RMB'000	Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
At 1 January 2012		5,161	915,177	–	26,992	95	80,456	8,370	–	(64,063)	711,960	293,412	1,977,560
Profit for the year		–	–	–	–	–	–	–	–	–	743,106	–	743,106
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	5,143	–	–	5,143
Total comprehensive income for the year		–	–	–	–	–	–	–	–	5,143	743,106	–	748,249
Transfer to statutory reserve funds		–	–	–	–	–	86,851	–	–	–	(86,851)	–	–
Equity-settled share option arrangements	33	–	–	–	–	–	–	8,346	–	–	–	–	8,346
Shares purchased for the Share Award Scheme	34	–	–	(56,756)	–	–	–	–	–	–	–	–	(56,756)
Equity-settled Share Award Scheme	34	–	–	26,251	–	–	–	–	22,985	–	–	–	49,236
Final 2011 dividend declared	12	–	910#	–	–	–	–	–	–	–	–	(132,035)	(131,125)
Special 2011 dividend declared	12	–	1,112#	–	–	–	–	–	–	–	–	(161,377)	(160,265)
Interim 2012 dividend	12	–	(112,593)	–	–	–	–	–	–	–	–	–	(112,593)
Proposed final 2012 dividend	12	–	(189,933)	–	–	–	–	–	–	–	–	189,933	–
Proposed final special 2012 dividend	12	–	(224,024)	–	–	–	–	–	–	–	–	224,024	–
At 31 December 2012 and 1 January 2013		5,161	390,649*	(30,505) *	26,992*	95*	167,307*	16,716*	22,985*	(58,920)*	1,368,215*	413,957	2,322,652
Profit for the year		–	–	–	–	–	–	–	–	–	820,715	–	820,715
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	(823)	–	–	(823)
Total comprehensive income for the year		–	–	–	–	–	–	–	–	(823)	820,715	–	819,892
Transfer to statutory reserve funds		–	–	–	–	–	137,217	–	–	–	(137,217)	–	–
Equity-settled share option arrangements	33	–	–	–	–	–	–	10,075	–	–	–	–	10,075
Shares purchased for the Share Award Scheme	34	–	–	(64,093)	–	–	–	–	–	–	–	–	(64,093)
Equity-settled Share Award Scheme	34	–	–	27,431	–	–	–	–	12,250	–	9,296	–	48,977
Final 2012 dividend declared	12	–	1,036#	–	–	–	–	–	–	–	–	(189,933)	(188,897)
Special 2012 dividend declared	12	–	1,221#	–	–	–	–	–	–	–	–	(224,024)	(222,803)
Interim 2013 dividend	12	–	(119,437)	–	–	–	–	–	–	–	–	–	(119,437)
Interim 2013 special dividend	12	–	(90,773)	–	–	–	–	–	–	–	–	–	(90,773)
Proposed final 2013 dividend	12	–	–	–	–	–	–	–	–	–	(209,834)	209,834	–
Proposed final special 2013 dividend	12	–	–	–	–	–	–	–	–	–	(157,376)	157,376	–
At 31 December 2013		5,161	182,696*	(67,167)*	26,992*	95*	304,524*	26,791*	35,235*	(59,743)*	1,693,799*	367,210	2,515,593

* These reserve accounts comprise the consolidated reserves of RMB2,143,222,000 (2012: RMB1,903,534,000) in the consolidated statement of financial position.

\# Dividend income arising on the shares held for the Share Award Scheme is deducted from the aggregate of dividends proposed and paid.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,162,096**	1,050,573
Adjustments for:			
Bank interest income	5	**(82,932)**	(43,395)
Interest income from loans receivable	5	**(4,654)**	(1,040)
Interest from principal guaranteed deposits	5	**–**	(11,524)
Finance costs	6	**10,589**	2,106
Depreciation	8	**25,665**	21,842
Amortisation of intangible assets	8	**480**	349
Amortisation of prepaid land lease payments	8	**419**	384
Loss on disposal of items of property, plant and equipment	8	**36**	–
Write-down of inventories to net realisable value	8	**3,707**	239
Equity-settled share option expense	8	**10,075**	8,346
Equity-settled share award expense	8	**48,977**	49,236
		1,174,458	1,077,116
Increase in inventories		**(452,333)**	(226,119)
(Increase)/decrease in trade and bills receivables		**(14,810)**	9,349
Increase in prepayments, deposits and other receivables		**(795)**	(42,003)
Increase in trade and bills payables		**98,516**	195,918
Increase in other payables and accruals		**205,226**	177,410
Increase in amounts due from directors		**(2,000)**	–
(Increase)/decrease in rental deposits		**(321)**	151
Cash generated from operations		**1,007,941**	1,191,822
Corporate income tax paid		**(347,468)**	(244,640)
Net cash flows from operating activities		**660,473**	947,182

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Net cash flows from operating activities		**660,473**	947,182
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(135,700)**	(39,293)
Proceeds from disposal of items of property, plant and equipment		**122**	181
Additions to intangible assets	17	**(2,230)**	(77)
Acquisition of a subsidiary	36	**(280,000)**	–
Held-to-maturity investment	21	**(21,240)**	–
Investment in bonds and loans receivable		**(98,092)**	(123,315)
Repayment of loans receivable		**9,212**	1,274
Interest received		**59,540**	29,284
Interest from principal guaranteed deposits	5	**–**	11,524
Increase in deposits paid for intangible assets		**–**	(3,208)
(Increase)/decrease in time deposits with original maturity of three months or more when acquired	26	**370,451**	(944,806)
(Increase)/decrease in non-current time deposits	26	**87,188**	(782,062)
Increase in restricted bank deposit	26	**(70,000)**	–
Net cash flows used in investing activities		**(80,749)**	(1,850,498)
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of shares held under the Share Award Scheme		**(64,093)**	(56,756)
New bank loans		**645,186**	270,526
Repayment of bank loans		**(165,099)**	–
Interest paid		**(8,758)**	(1,438)
Dividends paid to owners of the parent		**(621,910)**	(403,983)
Net cash flows used in financing activities		**(214,674)**	(191,651)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**365,050**	(1,094,967)
Cash and cash equivalents at beginning of year		**400,615**	1,490,456
Effect of foreign exchange rate changes, net		**(829)**	5,126
CASH AND CASH EQUIVALENTS AT END OF YEAR		**764,836**	400,615
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**764,836**	400,615

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**5**	7
Loans receivable	19	**85,497**	110,484
Investments in subsidiaries	22	**3,763,629**	3,817,570
Deferred tax assets		**334**	–
Total non-current assets		**3,849,465**	3,928,061
CURRENT ASSETS			
Due from subsidiaries	22	**567,783**	532,777
Prepayments, deposits and other receivables	25	**26,989**	11,182
Loans receivable	19	**27,090**	12,597
Derivative financial instrument	19	**5,936**	–
Cash and cash equivalents	26	**174,253**	147,503
Total current assets		**802,051**	704,059
CURRENT LIABILITIES			
Trade payables	27	**39,511**	223,048
Due to subsidiaries	22	**26,878**	29,005
Other payables and accruals	28	**7,231**	3,102
Tax payable		**1,393**	17,386
Interest-bearing bank borrowings	29	**750,613**	270,526
Total current liabilities		**825,626**	543,067
NET CURRENT (LIABILITIES)/ASSETS		**(23,575)**	160,992
Net assets		**3,825,890**	4,089,053
EQUITY			
Issued capital	32	**5,161**	5,161
Reserves	35(b)	**3,453,519**	3,669,935
Proposed dividends	12	**367,210**	413,957
Total equity		**3,825,890**	4,089,053

Luo Fei
Director

Kong Qingjuan
Director

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 — *Transition Guidance*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*
IAS 27 (Revised)	*Separate Financial Statements*
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets — Amended by Recoverable Amount Disclosures for Non-Financial Assets (early adopted)*
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012

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

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 9	*Financial Instruments*[4]
IFRS 9, IFRS 7 and IAS 39 Amendments	Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39[4]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[1]
IFRS 14	Regulatory Deferral Accounts[3]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets And Financial Liabilities*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Amended by Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC 21	*Levies*[1]
IFRSs Amendments	*Annual Improvements to IFRSs 2010-2012 Cycle*[2]
IFRSs Amendments	*Annual Improvements to IFRSs 2011-2013 Cycle*[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

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

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in the statement of profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in the statement of profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In November 2013, the IASB added to IFRS 9 the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to IFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to IFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other IFRS 9 requirements at the same time.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of IFRS 9 was removed by the IASB in November 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 July 2014. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

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

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Business combinations and goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

Fair value measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Plant and machinery	9% to 18%
Furniture, fixtures and office equipment	18% to 30%
Motor vehicles	18%
Others	50%
Leasehold improvements	Over the shorter of the lease terms and 20%

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

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

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

Intangible assets (other than goodwill)

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

Computer software

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

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

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

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Customer loyalty program

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

Government grants

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

Revenue recognition

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

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

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

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

Share-based payment

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. Further details of fair values are given in notes 33 and 34 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment (Continued)

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

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

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

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

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

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

Other employee benefits

Pension schemes

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Tax provisions

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

Deferred tax assets

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

Deferred tax liabilities

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

If those undistributed earnings of the subsidiaries in Mainland China are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred income tax liability would have been increased by the same amount of approximately RMB27,167,000.

Estimation uncertainties

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainties (Continued)

Provision for obsolete inventories

Management reviews the aged analysis of inventories of the Group at each reporting date, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale or that will be sold below cost. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2013, the carrying amounts of inventories were approximately RMB971,893,000 (2012: RMB523,267,000) after netting off the allowance for inventories of approximately RMB4,969,000 (2012: RMB1,262,000).

Deferred income

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

Impairment of loans and receivables

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

4. OPERATING SEGMENT INFORMATION

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

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

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

(c) the dried baby food 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 2012 have been restated.

4. OPERATING SEGMENT INFORMATION (Continued)

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

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

During the years ended 31 December 2013 and 2012, 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 2013

	Probiotic supplements RMB'000	Infant formulas 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	458,164	3,752,116	198,778	152,241	–	4,561,299
Segment results	360,182	2,421,955	110,530	82,453	–	2,975,120
Reconciliations:						
Interest income						87,586
Other income and unallocated gains						18,811
Corporate and other unallocated expenses						(1,908,832)
Finance costs						(10,589)
Profit before tax						1,162,096
Other segment information:						
Depreciation and amortisation	2,039	823	893	160	22,649	26,564
Write-down/(back) of inventories to net realisable value	35	3,430	431	(189)	–	3,707
Capital expenditure*	3,978	207,000	321	42	130,914	342,255

4. OPERATING SEGMENT INFORMATION (Continued)

Operating segment information for the year ended 31 December 2012

	Probiotic supplements RMB'000	Infant formulas 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	379,203	2,715,291	181,418	105,989	–	3,381,901
Segment results	294,777	1,768,756	107,251	58,162	–	2,228,946
Reconciliations:						
Interest income						44,435
Other income and unallocated gains						12,499
Corporate and other unallocated expenses						(1,233,201)
Finance costs						(2,106)
Profit before tax						1,050,573
Other segment information:						
Depreciation and amortisation	2,975	2,017	1,513	174	15,896	22,575
Write-down/(back) of inventories to net realisable value	(55)	45	21	228	–	239
Capital expenditure*	4,491	29	521	132	55,514	60,687

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

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

	2013 RMB'000	2012 RMB'000
Revenue		
Sale of goods	4,561,299	3,381,901
Other income and gains		
Bank interest income	82,932	43,395
Interest income from loans receivable	4,654	1,040
Interest from investments in principal guaranteed deposits	–	11,524
Foreign exchange gain	14,021	–
Service income	1,193	–
Government subsidies	1,218	–
Others	2,379	975
	106,397	56,934

6. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest on bank loans	10,589	2,106

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):

	Notes	2013 RMB'000	2012 RMB'000
Cost of inventories sold		**1,582,472**	1,152,716
Depreciation	14	**25,665**	21,842
Amortisation of intangible assets	17	**480**	349
Amortisation of land lease payments	15	**419**	384
Auditors' remuneration		**2,730**	2,300
Research and development costs*		**43,725**	27,202
Minimum lease payments under operating leases in respect of buildings		**38,371**	32,277
Loss on disposal of items of property, plant and equipment		**36**	–
Employee benefit expenses (including directors' and chief executive's remuneration):			
Wages and salaries		**671,031**	391,516
Pension scheme contributions (defined contribution schemes)		**78,797**	53,428
Staff welfare and other expenses		**31,783**	30,698
Equity-settled share option expense	33	**10,075**	8,346
Equity-settled share award expense	34	**48,977**	49,236
		840,663	533,224
Foreign exchange differences, net		**(14,021)**	7,184
Write-down of inventories to net realisable value#		**3,707**	239

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

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

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

(a) Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2013 RMB'000	2012 RMB'000
Fees	1,780	1,380
Other emoluments:		
Salaries, allowances and benefits in kind	3,007	3,441
Performance-related bonuses	10,266	7,014
Equity-settled share option expense	457	1,050
Equity-settled share award expense	2,017	2,922
Pension scheme contributions	124	125
	15,871	14,552
	17,651	15,932

In prior years, share options were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 33 to the financial statements. During the year, share awards were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 34 to the financial statements. The fair value of these options and share awards, which has been recognised in the statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

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

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

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

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

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

The remuneration of each of the directors and the chief executive for the year ended 31 December 2012 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance –related bonuses RMB'000	Equity-settled share option expense RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2012							
Executive directors:							
Mr. Luo Fei (Chief executive)	200	2,255	4,122	298	1,966	57	8,898
Ms. Kong Qingjuan	200	799	2,054	183	956	57	4,249
	400	3,054	6,176	481	2,922	114	13,147
Non-executive directors:							
Mr. Luo Yun	–	–	–	–	–	–	–
Mr. Wu Xiong	–	–	–	–	–	–	–
Mr. Chen Fufang	–	–	–	–	–	–	–
Dr. Zhang Wenhui	200	387	838	194	–	11	1,630
	200	387	838	194	–	11	1,630
Independent non-executive directors:							
Mr. Ngai Wai Fung	260	–	–	125	–	–	385
Mr. Tan Wee Seng	260	–	–	125	–	–	385
Professor Xiao Baichun	260	–	–	125	–	–	385
	780	–	–	375	–	–	1,155
	1,380	3,441	7,014	1,050	2,922	125	15,932

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

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

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

(b) Five highest paid employees

The five highest paid employees during the year included two (2012: two) directors, details of whose remuneration are set out in note 9(a) above. Details of the remuneration for the year of the remaining three (2012: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	2,569	2,104
Performance-related bonuses	13,722	6,127
Equity-settled share option expense	409	430
Equity-settled share award expense	2,070	3,320
Pension scheme contributions	185	172
	18,955	12,153

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

	2013	2012
HK$4,000,001 to HK$4,500,000	–	1
HK$4,500,001 to HK$5,000,000	–	1
HK$5,500,001 to HK$6,000,000	–	1
HK$7,000,001 to HK$7,500,000	1	–
HK$7,500,001 to HK$8,000,000	1	–
HK$9,000,001 to HK$9,500,000	1	–
	3	3

In prior years, share options were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. During the year, share awards were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are set out in note 34 to the financial statements. The fair value of these share options and share awards, which has been recognised in the consolidated statement of comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

	2013 RMB'000	2012 RMB'000
Group:		
Current – Charge for the year		
Mainland China	**395,819**	317,714
Hong Kong	**8,401**	–
France	**183**	7
Deferred (note 30)	**(63,022)**	(10,254)
Total tax charge for the year	**341,381**	307,467

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

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2012: nil).

PRC enterprise income tax ("EIT")

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

The Company's subsidiary, Biostime (Guangzhou) Health Products Limited ("Biostime Health") is a foreign invested enterprise ("FIE") which engages in manufacturing and was exempted from EIT for two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% tax reduction for the subsequent three years (the "FIE Tax Holiday"). Biostime Health's first profit-making year was the year ended 31 December 2008 which was also the first year of its FIE Tax Holiday. Accordingly, it was exempted from EIT for the two years ended 31 December 2008 and 2009 and was subject to EIT at reduced rates of 11%, 12% and 12.5% for the years ended 31 December 2010, 2011 and 2012, respectively. Biostime Health was subject to EIT at the rate of 25% for the year ended 31 December 2013.

France corporate income tax

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

10. INCOME TAX (Continued)

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

	2013 RMB'000	2012 RMB'000
Group:		
Profit before tax	1,162,096	1,050,573
Tax at the applicable PRC enterprise income tax rate	290,524	262,643
Overseas tax differential	(3,902)	4
Effect of tax concession for Biostime Health	–	(28,847)
Expenses not deductible for tax	57,940	14,265
Income not subject to tax	(1,049)	–
Tax losses not recognised	5,313	84
Effect of withholding tax at 5% (2012: 10%) on the distributable profits of the Group's subsidiaries in Mainland China	30,569	59,318
Refund of withholding tax payment at a lower rate of 5%	(38,014)	–
Tax charge at the Group's effective rate	341,381	307,467

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a profit of RMB479,710,000 (2012: a profit of RMB244,528,000) which has been dealt with in the financial statements of the Company (note 35(b)).

12. DIVIDENDS

	2013 *RMB'000*	2012 *RMB'000*
Dividends on ordinary shares declared and paid during the year:		
Interim – HK$0.25 (2012: HK$0.23) per ordinary share	119,437	112,593
Interim special – HK$0.19 (2012: nil) per ordinary share	90,773	–
Proposed final – HK$0.44 (2012: HK$0.39) per ordinary share	209,834	189,933
Proposed final special – HK$0.33 (2012: HK$0.46) per ordinary share	157,376	224,024
	577,420	526,550

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

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 599,639,595 (2012: 598,731,488) in issue during the year.

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

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

	2013 RMB'000	2012 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	820,715	743,106
	Number of Shares	
Shares		
Weighted average number of ordinary shares in issue	602,294,000	602,294,000
Weighted average number of shares held for the Share Award Scheme	(2,654,405)	(3,562,512)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	599,639,595	598,731,488
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	13,480,561	12,846,278
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	613,120,156	611,577,766

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve-ments RMB'000	Construction in progress RMB'000	Others RMB'000	Total RMB'000
Cost:								
At 1 January 2013	–	17,998	57,060	30,986	14,018	6,554	–	126,616
Additions	–	256	19,581	3,049	446	106,485	–	129,817
Acquisition of a subsidiary (note 36)	89,337	46,076	4,355	–	–	–	1,180	140,948
Disposals	–	(14)	(964)	(146)	–	–	–	(1,124)
Exchange alignment	–	9	2	–	(3)	–	–	8
At 31 December 2013	89,337	64,325	80,034	33,889	14,461	113,039	1,180	396,265
Accumulated depreciation:								
At 1 January 2013	–	6,814	22,958	10,945	8,825	–	–	49,542
Depreciation provided during the year (note 8)	–	1,980	14,852	5,519	3,314	–	–	25,665
Disposals	–	(12)	(823)	(131)	–	–	–	(966)
Exchange alignment	–	4	1	–	(3)	–	–	2
At 31 December 2013	–	8,786	36,988	16,333	12,136	–	–	74,243
Net carrying amount:								
At 31 December 2013	89,337	55,539	43,046	17,556	2,325	113,039	1,180	322,022

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture,– fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve- ments RMB'000	Construction in progress RMB'000	Others RMB'000	Total RMB'000
Cost:								
At 1 January 2012	–	13,025	39,125	23,202	12,027	–	–	87,379
Additions	–	5,091	18,240	7,784	1,991	6,554	–	39,660
Disposals	–	(135)	(309)	–	–	–	–	(444)
Exchange alignment	–	17	4	–	–	–	–	21
At 31 December 2012	–	17,998	57,060	30,986	14,018	6,554	–	126,616
Accumulated depreciation:								
At 1 January 2012	–	5,151	10,960	6,307	5,541	–	–	27,959
Depreciation provided during the year (note 8)	–	1,690	12,230	4,638	3,284	–	–	21,842
Disposals	–	(30)	(233)	–	–	–	–	(263)
Exchange alignment	–	3	1	–	–	–	–	4
At 31 December 2012	–	6,814	22,958	10,945	8,825	–	–	49,542
Net carrying amount:								
At 31 December 2012	–	11,184	34,102	20,041	5,193	6,554	–	77,074

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Leasehold improvements	Company 2013 RMB'000	2012 RMB'000
Cost:		
At 1 January	89	81
Additions	–	7
Exchange alignment	(3)	1
At 31 December	86	89
Accumulated depreciation:		
At 1 January	82	53
Depreciation provided during the year	2	29
Exchange alignment	(3)	–
At 31 December	81	82
Net carrying amount:		
At 31 December	5	7

15. PREPAID LAND LEASE PAYMENTS

	Group 2013 RMB'000	2012 RMB'000
Carrying amount at 1 January	20,566	–
Addition	–	20,950
Acquisition of a subsidiary (note 36)	66,052	–
Recognised during the year (note 8)	(419)	(384)
Carry amount at 31 December	86,199	20,566
Current portion included in prepayments, deposits and other receivables (note 25)	(1,938)	(419)
Non-current portion	84,261	20,147

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

16. GOODWILL

	Group 2013 RMB'000	2012 RMB'000
Cost:		
At 1 January	–	–
Acquisition of a subsidiary (note 36)	143,000	–
At 31 December	143,000	–
Accumulated impairment:		
At 1 January	–	–
Impairment provided during the year	–	–
At 31 December	–	–
Net carrying amount:		
At 31 December	143,000	–

The goodwill acquired in the business combination in the current year has not been allocated to a group of cash-generating units at the end of the reporting period because the purchase price allocation of the acquisition is still preliminary, pending the finalisation of valuation of certain property, plant and equipment and intangible assets, and the determination of the tax basis of the assets and liabilities acquired.

17. INTANGIBLE ASSETS

Computer software

	Group 2013 RMB'000	2012 RMB'000
Cost:		
At 1 January	2,134	2,057
Additions	5,438	77
At 31 December	7,572	2,134
Accumulated amortisation:		
At 1 January	983	634
Amortisation provided during the year (note 8)	480	349
At 31 December	1,463	983
Net carrying amount:		
At 31 December	6,109	1,151

18. BONDS RECEIVABLE

	Group	
	2013	2012
	RMB'000	RMB'000
Bonds receivable	**98,092**	–

The Group entered into a Bond Subscription Agreement with Isigny Sainte Mère ("ISM") on 30 July 2013, pursuant to which ISM would issue, and the Group would subscribe for 17,477,075 bonds, with a nominal value of EUR1 per bond, in three separate tranches, at the subscription price equal to the nominal value of the bonds. As at 31 December 2013, 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.

19. LOANS RECEIVABLE

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Current portion of loans receivable	**27,090**	12,597
Loans receivable due after one year	**85,497**	110,484
Total loans receivable	**112,587**	123,081
Derivative financial instrument	**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**	**2013** **RMB'000**	2012 RMB'000
Denominated in United States dollars (the "US$")	3.00%	By instalments before December 2018	**33,863**	33,942
Denominated in Danish krones (the "DKK")	DKK CIBOR rate +1%	By instalments before January 2017	**78,724**	89,139
Total loans receivable			**112,587**	123,081

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

20. DEPOSITS

	Group 2013 RMB'000	Group 2012 RMB'000
Deposits paid for purchase of intangible assets	–	3,208
Deposits paid for purchase of items of property, plant and equipment	9,112	4,265
Rental deposits	5,643	5,322
	14,775	12,795

21. HELD-TO-MATURITY INVESTMENT

	Group 2013 RMB'000	Group 2012 RMB'000
Investment in ISM	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, 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.

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

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

22. INVESTMENTS IN SUBSIDIARIES

	Company 2013 RMB'000	Company 2012 RMB'000
Unlisted investments, at cost	**3,648,075**	3,757,004
Capital contribution in respect of employee share-based compensation	**115,554**	60,566
	3,763,629	3,817,570

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB567,783,000 (2012: RMB532,777,000) and RMB26,878,000 (2012: RMB29,005,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou") *	PRC/Mainland China	US$73,010,000	100%	–	Research, development, processing of meat, fruit and vegetable powder and candy, sale of nutritional food, milk formulas and personal care products for infants and adults
Biostime (Guangzhou) Health Products Limited ("Biostime Health") *	PRC/Mainland China	US$34,100,000	100%	–	Research, development, manufacture and sale of health products and special nutritional foods
BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou") *	PRC/Mainland China	US$1,000,000	100%	–	Wholesale, retail and import and export of personal care products for infants
Biostime Pharma	France	EUR10,000	100%	–	Trading of infant food and nutritional products
Biostime (Guangzhou) Education Management Inc. ("Biostime Education") *	PRC/Mainland China	US$2,000,000	100%	–	Early childhood education advisory business and trading of related baby suppliers

22. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Biostime International Investment Limited ("Biostime Investment")	BVI	US$814,999	100%	–	Overseas investments, financing and other business cooperation
Biostime Hong Kong Limited ("Biostime HK")	Hong Kong	HK$126,534,299	–	100%	Investment holding, international investment, trading and sales
Parenting Power International Holdings Limited ("Parenting Power Holdings")	Cayman Islands	HK$380,000	100%	–	Parenting education advisory business, trading and sales
Parenting Power Investment Limited (Parenting Power Investment")	BVI	US$50,000	–	100%	Overseas investments, financing and other business cooperation
Parenting Power Hong Kong Limited ("Parenting Power HK")	Hong Kong	HK$10,000	–	100%	Holding, investment, education management, trading and sales
Mama 100 International Holdings Limited ("Mama 100 Holdings")	Cayman Islands	HK$380,000	100%	–	Mama 100 membership management, trading and sales
Mama 100 International Investment Limited ("Mama 100 Investment")	BVI	US$50,000	–	100%	Overseas investments, financing and other business cooperation
Mama 100 Hong Kong Limited ("Mama 100 HK")	Hong Kong	HK$10,000	–	100%	Investment holding, international investment, trading and sales
Changsha Yingke Nutrition Products Company Limited ("Changsha Yingke")*	PRC/Mainland China	RMB301,664,588	–	100%	Manufacture of infant formula products

* Registered as a limited liability company under the laws of the PRC.

During the year, the Group acquired Changsha Yingke from a third party. Further details of this acquisition are included in note 36 to the financial statements.

23. INVENTORIES

	Group 2013 RMB'000	2012 RMB'000
Raw materials	**445,516**	185,647
Raw materials in transit	**375,522**	277,425
Work in progress	**2,881**	2,486
Finished goods	**147,974**	57,709
	971,893	523,267

24. TRADE AND BILLS RECEIVABLES

	Group 2013 RMB'000	2012 RMB'000
Trade receivables	**475**	272
Bills receivable	**14,707**	100
Less: Impairment provision	**–**	–
	15,182	372

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.

24. TRADE AND BILLS RECEIVABLES (Continued)

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

	Group	
	2013	2012
	RMB'000	RMB'000
Within 1 month	**7,605**	150
1 to 3 months	**7,576**	134
Over 3 months	**1**	88
	15,182	372

The above aged analysis included the bills receivable balance of RMB14,707,000 (2012: RMB100,000).

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

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**26,538**	12,511	**23,689**	6,286
Deposits	**1,867**	842	**115**	119
Other receivables	**77,577**	61,798	**3,185**	4,525
Prepaid expenses	**3,475**	10,119	**–**	252
Current portion of prepaid land lease payments (note 15)	**1,938**	419	**–**	–
	111,395	85,689	**26,989**	11,182

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**824,836**	400,615	**174,253**	147,503
Time deposits	**1,762,874**	2,210,513	**–**	–
	2,587,710	2,611,128	**174,253**	147,503
Less:				
Non-pledged time deposits with maturity date after one year	**(854,874)**	(942,062)	**–**	–
Restricted bank deposit for business combination	**(70,000)**	–	**–**	–
Cash and cash equivalents as stated in the consolidated statement of financial position	**1,662,836**	1,669,066	**174,253**	147,503
Less:				
Non-pledged time deposits with original maturity of three months or more when acquired	**(898,000)**	(1,268,451)	**–**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows	**764,836**	400,615	**174,253**	147,503
Denominated in RMB (note)	**2,382,215**	2,538,079	**5,307**	88,316
Denominated in other currencies	**205,495**	73,049	**168,946**	59,187
	2,587,710	2,611,128	**174,253**	147,503

Note:

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between three months and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Long-term time deposits are with an original maturity of two years or more when acquired. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

27. TRADE AND BILLS PAYABLES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**354,760**	262,170	**39,511**	223,048
Bills payable	**6,874**	948	**–**	–
	361,634	263,118	**39,511**	223,048

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 month	**356,646**	244,842	**39,511**	223,048
1 to 3 months	**4,731**	17,847	**–**	–
Over 3 months	**257**	429	**–**	–
	361,634	263,118	**39,511**	223,048

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

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**10,824**	25,233	**–**	–
Salaries and welfare payables	**126,773**	80,099	**1,866**	523
Accruals	**323,624**	198,257	**5,365**	1,779
Other tax payables	**127,130**	90,095	**–**	–
Deferred income (note 31)	**51,768**	33,381	**–**	–
Other payables	**79,719**	16,752	**–**	800
	719,838	443,817	**7,231**	3,102

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

29. INTEREST-BEARING BANK LOANS

	Group and Company					
	2013			2012		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Unsecured bank loans	**HIBOR+2.25%**	**On demand**	**568,941**	HIBOR+2.25%	On demand	181,332
Unsecured bank loans	**2.87%**	**On demand**	**35,380**	–	–	–
Unsecured bank loans	**1.24%**	**On demand**	**146,292**	–	–	–
Unsecured bank loans	**–**	**–**	**–**	2.30%	On demand	89,194
			750,613			270,526

As at 31 December 2013, all the Group's bank loans are denominated in HK$ and US$ at aggregate amounts of RMB546,430,000 (2012: RMB210,814,000) and RMB204,183,000 (2012: RMB59,712,000), respectively.

30. DEFERRED TAX

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

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Deferred income RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Total RMB'000
At 1 January 2012	334	25,107	6,379	4,577	(45,452)	(9,055)
Credited/(charged) to the profit or loss for the year (note 10)	(10)	31,263	7,270	3,768	(32,037)#	10,254
At 31 December 2012 and 1 January 2013	324	56,370	13,649	8,345	(77,489)	1,199
Credited/(charged) to the profit or loss for the year (note 10)	942	32,738	6,927	4,597	17,818#	63,022
At 31 December 2013	1,266	89,108	20,576	12,942	(59,671)	64,221

The amount as at 31 December 2013 represented a deferred tax provision of RMB30,569,000 (2012: RMB59,318,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB48,387,000 (2012: RMB27,281,000) arising from dividends declared by these subsidiaries to their foreign investors during the year.

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

	Group 2013 RMB'000	2012 RMB'000
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	**123,892**	78,688
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	**(59,671)**	(77,489)
	64,221	1,199

30. DEFERRED TAX (Continued)

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

As at 31 December 2013, the Group has not recognised deferred tax liabilities of RMB27,167,000 (2012: RMB30,331,000) in respect of temporary differences relating to the unremitted profits of subsidiaries, amounting to RMB543,340,000 (2012: RMB606,620,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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

31. DEFERRED INCOME

	Group	
	2013	2012
	RMB'000	RMB'000
Customer loyalty program		
At 1 January	**33,381**	18,309
Addition	**555,907**	228,380
Recognised as revenue during the year	**(537,520)**	(213,308)
At 31 December (note 28)	**51,768**	33,381

32. SHARE CAPITAL

Shares

	2013	2012
Authorised:		
10,000,000,000 (2012: 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 (2012: 602,294,000) ordinary shares of HK$0.01 each	**HK$6,022,940**	HK$6,022,940
Equivalent to	**RMB5,161,000**	RMB5,161,000

33. SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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

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

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

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

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

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

33. SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

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

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

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

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

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

	Number of options	
	2013	2012
	'000	'000
At 1 January	**9,951**	10,246
Forfeited during the year	**(772)**	(295)
At 31 December	**9,179**	9,951

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme at 31 December 2013 are as follows:

Number of options '000	Exercise price HK$ per share	Exercise period
2,754	2.53	17-12-13 to 17-12-16
2,754	2.53	17-12-14 to 17-12-16
3,671	2.53	17-12-15 to 17-12-16
9,179		

33. SHARE OPTION SCHEMES (Continued)

Pre-IPO Share Option Scheme (Continued)

The Group recognised a share option expense related to share options under the Pre-IPO Share Option Scheme of RMB3,360,000 during the year ended 31 December 2013 (2012: RMB4,575,000).

The exercise in full of the outstanding share options under the Pre-IPO Share Option Scheme would, under the present capital structure of the Company, result in the issue of 9,179,000 additional ordinary shares of the Company and additional share capital of HK$92,000 (RMB72,000) and share premium of HK$23,131,000 (RMB25,077,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 9,179,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.5% of the Company's shares in issue as at that date.

Share Option Scheme

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

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

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

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

33. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

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

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

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

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

	2013		2012	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**17.95**	**4,059**	13.00	2,441
Granted during the year	**–**	**–**	22.84	2,088
Forfeited during the year	**16.64**	**(541)**	14.27	(470)
At 31 December	**18.11**	**3,518**	17.95	4,059

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

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

33. SHARE OPTION SCHEMES (Continued)

Share Option Scheme (Continued)

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

31 December 2013 Number of options '000	31 December 2012 Number of options '000	Exercise price* HK$ per share	Exercise period
211	228	15.312	17-12-13 to 17-12-16
224	301	11.52	17-12-13 to 17-12-16
90	90	12.12	17-12-13 to 17-12-16
175	203	19.64	17-12-13 to 17-12-16
355	396	24.70	17-12-13 to 17-12-16
211	228	15.312	17-12-14 to 17-12-16
224	301	11.52	17-12-14 to 17-12-16
90	90	12.12	17-12-14 to 17-12-16
175	203	19.64	17-12-14 to 17-12-16
355	396	24.70	17-12-14 to 17-12-16
283	305	15.312	17-12-15 to 17-12-16
299	401	11.52	17-12-15 to 17-12-16
120	120	12.12	17-12-15 to 17-12-16
233	270	19.64	17-12-15 to 17-12-16
473	527	24.70	17-12-15 to 17-12-16
3,518	4,059		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The Group recognised a share option expense related to share options under the Share Option Scheme of RMB6,715,000 during the year ended 31 December 2013 (2012: RMB3,771,000).

The exercise in full of the outstanding share options under the Share Option Scheme would, under the present capital structure of the Company, result in the issue of 3,518,000 additional ordinary shares of the Company and additional share capital of HK$35,000 (RMB28,000) and share premium of HK$63,680,000 (RMB50,067,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 3,483,060 share options outstanding under the Share Option Scheme, which represented approximately 0.6% of the Company's shares in issue as at that date.

34. SHARE AWARD SCHEMES

Share Award Scheme

The share award scheme (the "Share Award Scheme") of the Company was adopted by the board of directors on 28 November 2011 (the "Adoption Date") and amended by the board of directors on 30 March 2012. The purpose of the Share Award Scheme is to recognise the contributions of certain directors, senior management and employees of the Company and its subsidiaries and to retain and motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

Subject to the terms of the Share Award Scheme and the Listing Rules, the board of directors may at any time make an offer to any eligible person it may in its absolute discretion select to accept the grant of an award over such number of shares as it may determine. Shares will be acquired by the independent trustee (the "Trustee") of the Share Award Scheme on the market out of the funds contributed by the Company and be held in trust for the relevant participants in accordance with the provisions of the Share Award Scheme. The vesting period shall, in any event, be no longer than ten years.

The board of directors shall not make any further award which will result in the number of shares awarded by the board under the Share Award Scheme would represent in excess of 10% of the issued share capital of the Company as at the Adoption Date. In any event, the unvested shares held by the Trustee at any time shall be less than 5% of the issued share capital of the Company. The maximum number of shares which may be awarded to a participant under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

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

During the year ended 31 December 2013, based on the Company's instructions, the Trustee has purchased a total of 2,228,000 ordinary shares of the Company on the Stock Exchange at a total consideration of about HK$79,844,000 (equivalent to RMB64,093,000), including transaction cost, as compared to a purchase of 4,150,000 ordinary shares at a total consideration of about HK$69,853,000 (equivalent to RMB56,756,000) for the year ended 31 December 2012.

34. SHARE AWARD SCHEMES (Continued)

Share Award Scheme (Continued)

Summary of particulars of the shares awarded or vested under the share award scheme (the "Award Shares") during the year is as follows:

Date of grant	Number of Awarded Shares granted	Fair value RMB	Vesting date	Number of Awarded Shares: Vested as at 31 December 2013	Forfeited as at 31 December 2013	Outstanding (held by the Trustee for the grantees) as at 31 December 2013
3 July 2012	1,734,739[1]	28,374,000	3 July 2013	1,701,008	(33,731)	–
25 March 2013	1,239,887[2]	38,803,000	25 March 2014	–	(59,500)	1,180,387
21 October 2013	817,394[3]	40,251,528	30 November 2014	–	–	817,394
Total	3,792,020	107,428,528		1,701,008	(93,231)	1,997,781

1: Among these Awarded Shares granted, 84,000 Awarded Shares were granted to the executive directors.

2: Among these Awarded Shares granted, 48,500 Awarded Shares were granted to the executive directors.

3: Among these Awarded Shares granted, 25,000 Awarded Shares were granted to the executive directors.

The Group recognised a share award expense of RMB48,977,000 during the year (2012: RMB49,236,000).

At the date of approval of these financial statements, 1,997,781 outstanding Awarded Shares are held by the Trustee of the Share Award Scheme for relevant grantees; and 402,344 shares (including those Awarded Shares forfeited) are held by the Trustee and have yet to be awarded.

34. SHARE AWARD SCHEMES (Continued)

2013 Share Award Scheme

The board of directors of the Company has approved the adoption of the 2013 Share Award Scheme on 29 November 2013. The purposes of the 2013 Share Award Scheme remain the same as to the Share Award Scheme. Subject to any early termination as may be determined by the board, the 2013 Share Award Scheme shall be valid and effective for a term of five years commencing on 29 November 2013.

The board of directors may from time to time at its absolute discretion select any employee who is eligible to participate in the 2013 Scheme or a group of selected employees for participation in the 2013 Scheme.

For the purpose of satisfying awards granted under the 2013 Share Award Scheme, awarded shares shall be allotted and issued at par value by the Company, by using the general mandate granted to the board of directors by the shareholders of the Company in general meetings of the Company from time to time, unless separate shareholders' approval is obtained in a general meeting of the Company.

Subsequent to the grant of awards, the board of directors shall pay (or cause to be paid) sufficient funds (the "Referable Amount") to the trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside for the subscription of the relevant awarded shares. After receiving the Referable Amount, the trustee shall apply the same towards the subscription of awarded shares at par at such time as agreed between the trustee and the board of directors from time to time but in any event no later than 40 business days before the vesting of the relevant Awarded Shares.

During the reporting period, no shares were granted or issued under the 2013 Share Award Scheme.

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 69 of the financial statements.

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

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

In accordance with the Company Law of the People's Republic of China, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with generally accepted accounting principles in the PRC ("PRC GAAP"), to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

35. RESERVES (Continued)

(b) Company

	Notes	Share premium account RMB'000	Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2012		915,177	–	3,260,270	8,370	–	(244,941)	8,985	3,947,861
Total comprehensive income for the year	11	–	–	–	–	–	1,248	244,528	245,776
Equity-settled share option arrangements	33	–	–	–	8,346	–	–	–	8,346
Shares purchased for the Share Award Scheme	34	–	(56,756)	–	–	–	–	–	(56,756)
Equity-settled Share Award Scheme	34	–	26,251	–	–	22,985	–	–	49,236
Final 2011 dividend declared		910#	–	–	–	–	–	–	910
Special 2011 dividend		1,112#	–	–	–	–	–	–	1,112
Interim 2012 dividend	12	(112,593)	–	–	–	–	–	–	(112,593)
Proposed final 2012 dividend	12	(189,933)	–	–	–	–	–	–	(189,933)
Proposed special 2012 dividend	12	(224,024)	–	–	–	–	–	–	(224,024)
At 31 December 2012 and 1 January 2013		390,649	(30,505)	3,260,270	16,716	22,985	(243,693)	253,513	3,669,935
Total comprehensive income for the year	11	–	–	–	–	–	(115,922)	479,710	363,788
Equity-settled share option arrangements	33	–	–	–	10,075	–	–	–	10,075
Shares purchased for the Share Award Scheme	34	–	(64,093)	–	–	–	–	–	(64,093)
Equity-settled Share Award Scheme	34	–	27,431	–	–	12,250	–	9,296	48,977
Final 2012 dividend declared		1,036#	–	–	–	–	–	–	1,036
Special 2012 dividend		1,221#	–	–	–	–	–	–	1,221
Interim 2013 dividend	12	(119,437)	–	–	–	–	–	–	(119,437)
Interim 2013 special dividend	12	(90,773)	–	–	–	–	–	–	(90,773)
Proposed final 2013 dividend	12	–	–	–	–	–	–	(209,834)	(209,834)
Proposed final special 2013 dividend	12	–	–	–	–	–	–	(157,376)	(157,376)
At 31 December 2013		182,696	(67,167)	3,260,270	26,791	35,235	(359,615)	375,309	3,453,519

Dividend income arising on the shares held for the Share Award Scheme is deducted from the aggregate of dividends proposed and paid.

35. RESERVES (Continued)

(b) Company (Continued)

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

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

36. BUSINESS COMBINATION

On 30 December 2013, the Group acquired 100% interest in Changsha Yingke from a third party. Changsha Yingke is primarily 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 in the form of cash, with RMB177,000,000 paid at the acquisition date, RMB103,000,000 paid on 31 December 2013 and the remaining RMB70,000,000 would be settled pending several conditions.

The fair values of the identifiable assets and liabilities of Changsha Yingke as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	14	140,948
Prepaid land lease payment	15	66,052
Goodwill	16	143,000
Total identifiable net assets at fair value		350,000
Total cash consideration		
Satisfied by cash		280,000
Other payables		70,000
		350,000

36. BUSINESS COMBINATION (Continued)

The purchase price allocation of Changsha Yingke is still preliminary, pending the finalisation of valuation of certain property, plant and equipment and intangible assets, and the determination of the tax basis of the assets and liabilities acquired.

The Group incurred transaction costs of RMB706,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of comprehensive income.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(350,000)
Cash and bank balances acquired	–
Net outflow of cash and cash equivalents included in cash flows from investing activities	(350,000)
Transaction costs of the acquisition included in cash flows from operating activities	(706)
	(350,706)

No turnover was contributed by Changsha Yingke for the year ended 31 December 2013.

37. CONTINGENT LIABILITIES

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

38. OPERATING LEASE ARRANGEMENTS

As lessee

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

As at 31 December 2013 and 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**49,771**	52,020	**350**	425
In the second to fifth years, inclusive	**43,143**	48,084	**–**	284
After five years	**5,227**	7	**–**	–
	98,141	100,111	**350**	709

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the end of the reporting period:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Intangible assets	**333**	1,826	**–**	–
Fixed assets	**112,089**	84,866	**–**	–
	112,422	86,692	**–**	–

40. LOANS TO DIRECTORS

Loans to directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

	31 December 2013 RMB'000	Maximum amount outstanding during the year RMB'000	31 December 2012 RMB'000	Security held
Luo fei	**1,154**	1,154	–	None
Wu Xiong	**520**	520	–	None
Chen Fufang	**238**	238	–	None
Kong Qingjuan	**88**	88	–	None
	2,000	2,000	–	

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

41. RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Related party transactions

	2013 RMB'000	2012 RMB'000
Purchases from a company under common control of directors	**5,630**	2,354

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

(b) Outstanding balances with related parties

Details of the Group's loans to the Company's directors are included in note 40 to the financial statements.

(c) Compensation of key management personnel of the Group

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

	2013 RMB'000	2012 RMB'000
Short-term employee benefits	**56,294**	26,271
Pension scheme contributions	**873**	791
Equity-settled share option expense	**1,169**	1,371
Equity-settled share award expense	**6,719**	10,242
Total compensation paid to key management personnel	**65,055**	38,675

42. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2013		**Group**			
	Notes	**Held-to-maturity investment RMB'000**	**Financial assets at fair value through profit or loss RMB'000**	**Loans and receivables RMB'000**	**Total RMB'000**
Bonds receivable	18	–	–	98,092	98,092
Loans receivable	19	–	–	112,587	112,587
Held-to-maturity investment	21	21,240	–	–	21,240
Non-current time deposits	26	–	–	854,874	854,874
Trade and bills receivables	24	–	–	15,182	15,182
Financial assets included in prepayments, deposits and other receivables		–	–	79,444	79,444
Due from directors	40			2,000	2,000
Derivative financial instrument	19	–	5,936	–	5,936
Restricted bank deposit	26	–	–	70,000	70,000
Cash and cash equivalents	26	–	–	1,662,836	1,662,836
		21,240	5,936	2,895,015	2,922,191

2012		Group			
	Notes	Held-to-maturity investment RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Loans receivable	19	–	–	123,081	123,081
Non-current time deposits	26	–	–	942,062	942,062
Trade and bills receivables	24	–	–	372	372
Financial assets included in prepayments, deposits and other receivables		–	–	62,640	62,640
Cash and cash equivalents	26	–	–	1,669,066	1,669,066
		–	–	2,797,221	2,797,221

42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets

2013

	Notes	Financial assets at fair value through profit or loss RMB'000	Company Loans and receivables RMB'000	Total RMB'000
Loans receivable	19	–	112,587	112,587
Due from subsidiaries	22	–	567,783	567,783
Financial assets included in prepayments, deposits and other receivables		–	3,300	3,300
Derivative financial instrument	19	5,936	–	5,936
Cash and cash equivalents	26	–	174,253	174,253
		5,936	857,923	863,859

2012

	Notes	Financial assets at fair value through profit or loss RMB'000	Company Loans and receivables RMB'000	Total RMB'000
Loans receivable	19	–	123,081	123,081
Due from subsidiaries	22	–	532,777	532,777
Financial assets included in prepayments, deposits and other receivables		–	4,644	4,644
Cash and cash equivalents	26	–	147,503	174,503
		–	808,005	808,005

42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities at amortised cost

		Group	
		2013	2012
	Notes	**RMB'000**	RMB'000
Trade and bills payables	27	**361,634**	263,118
Financial liabilities included in other payables and accruals		**399,935**	207,295
Interest-bearing bank borrowings	29	**750,613**	270,526
		1,512,182	740,939

		Company	
		2013	2012
	Notes	**RMB'000**	RMB'000
Trade payables	27	**39,511**	223,048
Due to subsidiaries	22	**26,878**	29,005
Financial liabilities included in other payables and accruals		**5,365**	2,579
Interest-bearing bank borrowings	29	**750,613**	270,526
		822,367	525,158

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The Group and the Company

	Carrying amounts		Fair values	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Derivative financial instrument	**5,936**	–	**5,936**	–

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

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

(a) The fair values of the non-current time deposits, loans receivable, bonds receivable and held-to maturity investment have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans, and the suppliers' non-performance risk for loans and bonds receivable as at 31 December 2013 was assessed to be insignificant.

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

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

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

	Valuation technique	Significant unobservable input	Range	Sensitivity of the input to fair value
Derivative financial instrument	Discounted cash flow method	Weighted average cost of capital (WACC)	12.2% to 14.2%	1% increase in WACC would result in decrease in fair value by RMB1,856,000, 1% decrease in WACC would result in increase in fair value by RMB2,521,000
		Discount for lack of marketability	31.9% to 33.9%	1% increase in discount would result in decrease in fair value by RMB445,000, 1% decrease in discount would result in increase in fair value by RMB225,000

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

Fair value hierarchy

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

Assets measured at fair value:

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

The Group and the Company did not have any financial assets measured at fair value as at 31 December 2012.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

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

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

	Increase/ (decrease) in basis points	**Group Increase/ (decrease) in profit before tax** RMB'000	**Company Increase/ (decrease) in profit before tax** RMB'000
Year ended 31 December 2013	50	(2,835)	(3,326)
Year ended 31 December 2013	(50)	2,835	3,326
Year ended 31 December 2012	50	461	461
Year ended 31 December 2012	(50)	(461)	(461)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the unit's functional currencies. Approximately 89.2% (2012: 90.1%) of the Group's purchases were denominated in currencies other than the functional currencies of the operating units making the purchase. The Group also has certain bank balances denominated in HK$, US$ and Euro. In addition, the Group has investments denominated in Euro, provided loans to suppliers denominated in US$ and DKK and borrowed bank loans in HK$ and US$. The Group did not enter into any foreign exchange forward contracts to hedge against foreign exchange fluctuations. However, the Group makes rolling forecasts on its foreign currency expenses and arranges payments, so as to alleviate the impact on its business due to exchange rate fluctuations.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

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

	Increase/ (decrease) in US$/Euro/HK$/DKK rate	Increase/ (decrease) in profit before tax	
		2013	2012
	%	RMB'000	RMB'000
If the RMB weakens against the US$	5	(436)	1,815
If the RMB strengthens against the US$	(5)	436	(1,815)
If the RMB weakens against the Euro	5	(7,004)	(8,819)
If the RMB strengthens against the Euro	(5)	7,004	8,819
If the RMB weakens against the HK$	5	(29,818)	1,515
If the RMB strengthens against the HK$	(5)	29,818	(1,515)
If the RMB weakens against the DKK	5	3,950	3,650
If the RMB strengthens against the DKK	(5)	(3,950)	(3,650)

Credit risk

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

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

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

Liquidity risk

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

As at 31 December 2013 and 2012, all the Group's financial liabilities would be due within 12 months.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a healthy liabilities to assets ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

The Group monitors capital using the liabilities to assets ratio, which is total liabilities divided by total assets. The liabilities to assets ratios as at the end of the reporting periods are as follows:

	2013 **RMB'000**	2012 RMB'000
Total liabilities	**2,104,481**	1,210,740
Total assets	**4,620,074**	3,533,392
Liabilities to assets ratio	**46%**	34%

45. EVENTS AFTER THE REPORTING PERIOD

On 20 February 2014, the Company issued zero coupon convertible bonds (the "Convertible Bonds") due 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. The Convertible Bonds will be convertible into shares at an initial conversion price of HK$90.84 per share (subject to adjustment). Holders of the Convertible Bonds have the right to convert their Convertible Bonds into shares at any time during the conversion period (being on or after 4 April 2014 up 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 the 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) at the then prevailing conversion price. Assuming full conversion of the Convertible Bonds at the initial Conversion Price of HK$90.84, the Convertible Bonds will be convertible into 34,125,935 shares (subject to adjustment), representing approximately 5.67% of the issued share capital of the Company as at 20 February 2014 and approximately 5.36% of the issued share capital of the Company as enlarged by the issue of such 34,125,935 shares.

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.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2014.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**
RESULTS					
REVENUE	558,969	1,233,560	2,189,034	3,381,901	**4,561,299**
Gross profit	395,953	877,173	1,456,127	2,228,946	**2,975,120**
PROFIT BEFORE TAX	118,153	334,063	713,907	1,050,573	**1,162,096**
Income tax expense	(9,836)	(68,380)	(186,556)	(307,467)	**(341,381)**
PROFIT FOR THE YEAR	108,317	265,683	527,351	743,106	**820,715**
Attributable to:					
Owners of the parent	108,317	265,683	527,351	743,106	**820,715**
Non-controlling interests	–	–	–	–	**–**
	108,317	265,683	527,351	743,106	**820,715**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB)					
For profit for the year					
– Basic	0.24	0.58	0.88	1.24	**1.37**
– Diluted	0.24	0.58	0.86	1.22	**1.34**

	As of 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013 RMB'000**
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Non-current assets	29,755	39,857	287,701	1,242,401	**1,753,742**
Current assets	253,664	1,862,142	2,150,365	2,290,991	**2,866,332**
Current liabilities	(112,862)	(236,347)	(415,054)	(1,133,251)	**(2,044,810)**
Non-current liabilities	–	(5,760)	(45,452)	(77,489)	**(59,671)**
Net assets	170,557	1,659,892	1,977,560	2,322,652	**2,515,593**
Attributable to:					
Owners of the parent	170,557	1,659,892	1,977,560	2,322,652	**2,515,593**
Non-controlling interests	–	–	–	–	**–**
	170,557	1,659,892	1,977,560	2,322,652	**2,515,593**

Note: The Company was incorporated in the Cayman Islands on 30 April 2010 and became the holding company of the Group on 16 November 2010. The results and assets and liabilities for 2009 has been prepared on a combined basis as if the current group structure had been in existence throughout those years.

Biostime International Holdings Limited

合生元國際控股有限公司