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

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

	2012 *RMB'000*	2011 *RMB'000*	**% of Change**
Revenue	**3,381,901**	2,189,034	54.5%
Gross profit	**2,228,946**	1,456,127	53.1%
Profit before tax	**1,050,573**	713,907	47.2%
Profit for the year	**743,106**	527,351	40.9%
Net cash flows from operating activities	**947,182**	516,212	83.5%
Basic earnings per share	**RMB1.24**	RMB0.88	40.9%
Annual dividend per ordinary share	**HK$1.08**	HK$0.76	42.1%
– Paid interim dividend per ordinary share	**HK$0.23**	HK$0.16	43.8%
– Proposed final dividend per ordinary share	**HK$0.39**	HK$0.27	44.4%
– Proposed special dividend per ordinary share	**HK$0.46**	HK$0.33	39.4%

For the year ended 31 December 2012, the Group recorded the following:

- Revenue amounted to RMB3,381.9 million, representing an increase of RMB1,192.9 million or 54.5% from RMB2,189.0 million in 2011.
- Profit before tax amounted to RMB1,050.6 million, representing an increase of RMB336.7 million or 47.2% from RMB713.9 million in 2011.
- Profit for the year amounted to RMB743.1 million, representing an increase of RMB215.7 million or 40.9% from RMB527.4 million in 2011.
- Net cash flow from operating activities amounted to RMB947.2 million, representing an increase of RMB431.0 million or 83.5% from RMB516.2 million in 2011.
- Basic earnings per share increased from RMB0.88 in 2011 to RMB1.24, representing an increase of 40.9%.
- The Board of Directors has recommended the payment of a final dividend of HK$0.39 per ordinary share and a special dividend of HK$0.46 per ordinary share for the year ended 31 December 2012. Taking into account the interim dividend of HK$0.23 per ordinary share in respect of the six months ended 30 June 2012 paid in September 2012, the annual dividend for the year ended 31 December 2012 will amount to HK$1.08 per ordinary share, accounting for approximately 70.8% of profit for the year ended 31 December 2012.

The board (the "Board") of directors (the "Directors") of Biostime International Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2012, together with the comparative figures for the corresponding period in 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2012

	Notes	**2012** *RMB'000*	2011 *RMB'000*
REVENUE	5	**3,381,901**	2,189,034
Cost of sales		**(1,152,955)**	(732,907)
Gross profit		**2,228,946**	1,456,127
Other income and gains	5	**56,934**	71,751
Selling and distribution costs		**(1,077,721)**	(708,604)
Administrative expenses		**(116,871)**	(82,041)
Finance costs	6	**(2,106)**	–
Other expenses		**(38,609)**	(23,326)
PROFIT BEFORE TAX	7	**1,050,573**	713,907
Income tax expense	8	**(307,467)**	(186,556)
PROFIT FOR THE YEAR		**743,106**	527,351
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**5,143**	(55,898)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**748,249**	471,453
Profit attributable to owners of the parent		**743,106**	527,351
Total comprehensive income attributable to owners of the parent		**748,249**	471,453
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		**1.24**	0.88
Diluted		**1.22**	0.86

Details of the dividends paid and proposed for the year are disclosed in note 9.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2012

	Notes	**2012** *RMB'000*	2011 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**77,074**	59,420
Prepaid land lease payment		**20,147**	–
Intangible assets		**1,151**	1,423
Loans receivable	11	**110,484**	–
Deposits		**12,795**	30,461
Time deposits		**942,062**	160,000
Deferred tax assets		**78,688**	36,397
Total non-current assets		**1,242,401**	287,701
CURRENT ASSETS			
Inventories	12	**523,267**	297,387
Trade and bills receivables	13	**372**	9,721
Prepayments, deposits and other receivables		**85,689**	29,156
Cash and cash equivalents		**1,669,066**	1,814,101
Loans receivable	11	**12,597**	–
Total current assets		**2,290,991**	2,150,365
CURRENT LIABILITIES			
Trade and bills payables	14	**263,118**	67,200
Other payables and accruals	15	**443,817**	265,145
Interest-bearing bank loans		**270,526**	–
Tax payable		**155,790**	82,709
Total current liabilities		**1,133,251**	415,054
NET CURRENT ASSETS		**1,157,740**	1,735,311
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,400,141**	2,023,012
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**77,489**	45,452
Net assets		**2,322,652**	1,977,560
EQUITY			
Equity attributable to owners of the parent			
Issued capital	16	**5,161**	5,161
Reserves		**1,903,534**	1,678,987
Proposed dividends	9	**413,957**	293,412
Total equity		**2,322,652**	1,977,560

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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.

2. BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full on consolidation.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following 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 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

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

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

During the years ended 31 December 2012 and 2011, 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 2012

Year ended 31 December 2012	**Probiotic supplements** *RMB'000*	**Infant formulas** *RMB'000*	**Dried baby food products** *RMB'000*	**Baby care products** *RMB'000*	**Nutrition supplements** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Segment revenue:							
Sales to external customers	**379,203**	**2,715,291**	**134,765**	**105,989**	**46,653**	**–**	**3,381,901**
Segment results	**294,777**	**1,768,756**	**76,741**	**58,162**	**30,510**	**–**	**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**	**866**	**174**	**647**	**15,896**	**22,575**
Write-down/(back) of inventories to net realisable value	**(55)**	**45**	**3**	**228**	**18**	**–**	**239**
Capital expenditure*	**4,491**	**29**	**24**	**132**	**497**	**55,514**	**60,687**

Operating segment information for the year ended 31 December 2011

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

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payment 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:

	2012 ***RMB'000***	2011 *RMB'000*
Revenue		
Sale of goods	**3,381,901**	2,189,034
Other income and gains		
Bank interest income	**43,395**	17,289
Interest income from loans receivable	**1,040**	–
Gains from investments in principal guaranteed deposits	**11,524**	–
Foreign exchange gain	**–**	52,784
Others	**975**	1,678
	56,934	71,751

6. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on bank loans	**2,106**	–

7. PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Cost of inventories sold	**1,152,716**	731,960
Depreciation	**21,842**	12,848
Amortisation of intangible assets	**349**	133
Research and development costs*	**27,202**	19,775
Loss on disposal of items of property, plant and equipment	**–**	122
Minimum lease payments under operating leases in respect of buildings	**32,277**	23,085
Amortisation of land lease payment	**384**	–
Auditors' remuneration	**2,300**	2,050
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**391,516**	218,979
Pension scheme contributions (defined contribution schemes)	**53,428**	31,867
Staff welfare and other expenses	**30,698**	12,139
Equity-settled share option expense	**8,346**	5,721
Equity-settled share award expense	**49,236**	–
	533,224	268,706
Foreign exchange differences, net	**7,184**	(52,784)
Write-down of inventories to net realisable value#	**239**	947

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

8. INCOME TAX

	2012 RMB'000	2011 RMB'000
Group:		
Current – Charge for the year		
Mainland China	**317,714**	177,451
France	**7**	41
Deferred	**(10,254)**	9,064
Total tax charge for the year	**307,467**	186,556

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

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: 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.

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

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:

	2012	2011
	RMB'000	*RMB'000*
Group:		
Profit before tax	**1,050,573**	713,907
Tax at the applicable PRC enterprise income tax rate	**262,643**	178,477
Overseas tax differential	**4**	(3,013)
Effect of tax concession for Biostime Health	**(28,847)**	(24,799)
Income not subject to tax	**–**	(9,500)
Expenses not deductible for tax	**14,265**	5,699
Tax losses not recognised	**84**	–
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**59,318**	39,692
Tax charge at the Group's effective rate	**307,467**	186,556

9. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Dividends on ordinary shares declared and paid during the year:		
Interim – HK$0.23 (2011: HK$0.16) per ordinary share	**112,593**	79,057
Proposed final – HK$0.39 (2011: HK$0.27) per ordinary share	**189,933**	132,035
Proposed special – HK$0.46 (2011: HK$0.33) per ordinary share	**224,024**	161,377
	526,550	372,469

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

10. 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 598,731,488 (2011: 602,231,151) 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:

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**743,106**	527,351
	Number of Shares	
Shares		
Weighted average number of ordinary shares in issue	**602,294,000**	602,231,151
Weighted average number of shares purchased for the Share Award Scheme	**(3,562,512)**	–
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**598,731,488**	602,231,151
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**12,846,278**	8,312,670
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**611,577,766**	610,543,821

11. LOANS RECEIVABLE

	2012	2011
	RMB'000	*RMB'000*
Current portion of loans receivable	**12,597**	–
Loans receivable due after one year	**110,484**	–
Total loans receivable	**123,081**	–

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

	Effective interest rate	Maturity	**2012**	2011
			RMB'000	*RMB'000*
Denominated in United States dollars (the "USD")	3.00%	By instalments before December 2018	**33,942**	–
Denominated in Danish krones (the "DKK")	DKK CIBOR rate +1%	By instalments before January 2017	**89,139**	–
Total loans receivable			**123,081**	–

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

12. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**185,647**	234,658
Raw materials in transit	**277,425**	18,494
Work in progress	**2,486**	1,175
Finished goods	**57,709**	43,060
	523,267	297,387

13. TRADE AND BILLS RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**272**	1,380
Bills receivable	**100**	8,341
Less: Impairment provision	**–**	–
	372	9,721

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

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

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

	2012	2011
	RMB'000	*RMB'000*
Within 1 month	**150**	4,815
1 to 3 months	**134**	3,202
Over 3 months	**88**	1,704
	372	9,721

The above aged analysis included the bills receivable balance of RMB100,000 (2011: RMB8,341,000).

The aged analysis of trade and bills receivables of the Group that are neither individually nor collectively considered to be impaired is as follows:

	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**372**	9,421
Past due but not impaired		
Over 3 months past due	**–**	300
	372	9,721

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.

14. TRADE AND BILLS PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**262,170**	67,200
Bills payable	**948**	–
	263,118	67,200

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:

	2012	2011
	RMB'000	*RMB'000*
Within 1 month	**244,842**	51,222
1 to 3 months	**17,847**	15,682
Over 3 months	**429**	296
	263,118	67,200

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

15. OTHER PAYABLES AND ACCRUALS

	2012	2011
	RMB'000	*RMB'000*
Advances from customers	**25,233**	29,115
Salaries and welfare payables	**80,099**	50,754
Accruals	**198,257**	74,709
Other tax payables	**90,095**	63,445
Deferred income	**33,381**	18,309
Other payables	**16,752**	28,813
	443,817	265,145

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

16. SHARE CAPITAL

Shares

	2012	2011
Authorised:		
10,000,000,000 (2011: 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 (2011: 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

BUSINESS REVIEW

As a premium provider of high-end pediatric nutritional and baby care products in China, the Group has been active in the development, marketing and sales of premium products for babies, young children and pregnant mothers in China which are increasingly well received among mother consumers. Thanks to the booming baby products market in China supported by a solid demand from Chinese mothers for various baby products, the Group recorded a consistent and fast growth of its revenue at a CAGR of 65.7% from 2010 to 2012. In 2012, the Group continued to keep this momentum and delivered another year of notably high revenue and net profit, accomplishing a total revenue of RMB3,381.9 million with net profit of RMB743.1 million, increasing by 54.5% and 40.9%, respectively, as compared with 2011.

During the year 2012, the sales revenue of infant formula business sustained a strong growth of 61.2%, which amounted to RMB2,715.3 million, contributing to 80.3% of the Group's total revenue. The supreme-tier(1) and high-tier(2) segments of the Group's infant formula business grew at the rates of 42.1% and 77.4%, respectively, maintaining fast development despite of the fierce competition. Notably, the high-tier segment made up 59.4% of the Group's infant formula business in 2012 and became the more significant growth contributor to the Group's infant formula business. The Group will continue to grow in both the supreme-tier and high-tier infant formula segments.

Notes:

(1) Refers to infant formulas priced over RMB300 per can of 900g

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

Probiotic is the second biggest business segment of the Group with the highest gross margin among the product portfolio. During the year 2012, the sales revenue of probiotic business recorded 14.2% growth as compared with 2011, contributing to 11.2% of the Group's total revenue. In the second half of 2012, the Group has taken a series of actions to sustain the probiotic business growth momentum. They included formula improvement, performance enhancement of the sales team, and a range of marketing support services to mark the 10th anniversary of the business line.

Baby care products, under the BMcare™ brand, experienced a year of breakthrough in 2012. Sales revenue of baby care products reached RMB106.0 million, rapidly growing at 121.5%, as compared with 2011. The Group will continue its strategy of multi-category expansion to drive business growth.

In October 2012, the Group expanded its product portfolio by introducing to the Chinese market three new product lines, namely Pre-school Formula, Natural Baby Cereal and BMcare Essential & Natural Series. These products have further extended the life cycle of the Group's product portfolio and increased consumer spending.

The Group consistently invested in its brands to increase brand recognition and enhance brand equity. In 2012, the Group invested more on advertising. Advertising expenses increased by 10.4% from the year 2011. Included in the expenses was a notable increase in advertising spending in the new media channels, such as internet TV, search engine and online social media.

Mama100 Membership Platform continued to play a critical role in the Group's success. Mama100 Membership Platform is an integrated database marketing platform which provides various value-added services for members and member retail outlets, including professional magazine, nursing consulting hotline, the mama100.com website and membership points accumulation programme and training programme, which enable the Group to enhance cross-selling and consumer loyalty and support a series of database marketing activities to achieve higher sales and promotion efficiency. As at 31 December 2012, the numbers of Mama100 active members increased to 1,400,781 at the rate of 69.7% as compared with 2011. The sales generated by Mama100 active members contributed to about 84.7% of the Group's total revenue. In 2012, on a monthly average basis, Mama100 call centre transacted 226,291 calls and Mama100 "Children" magazine issued 335,650 copies, increasing by 22.2% and 81.1%, respectively, as compared with 2011.

Sales and distribution channels expansion under the control of real-time distribution management system is an important business growth driver for the Group. During 2012, the Group registered increases of the number of VIP baby specialty stores to 10,404, Mama100 Member's Zones in pharmacies to 744, and retail sales organizations to 4,174, or by 54.7%, 36.5% and 40.6%, respectively, as compared with 2011. Despite the rapid expansion of the sales channels and retail outlets, the Group has continued to select new retail stores based on stringent criteria and to track the inventory and sales of its products at the distributors' level to monitor retail prices, avoid channel conflict and stuffing, enabling the Group to maintain a sustainable business growth through a sophisticated real-time distribution management system. According to the real-time distribution management system, the inventory turnover days of the Group's distributors[(1)] is about 29 days on average.

In June 2012, the Group signed a 10-Year Financing and Supply Agreement with Arla Foods Amba ("Arla Foods") at Arinco, Arla Foods's largest infant formula production facility based in Denmark, which is equipped with full formula spray-dry technology and uses Arla's own Danish milk. This additional supply source will enable the Group to ensure a sustainable, stable and quality supply of its infant formula powders. At the same time, the Group has signed a renewed infant formulas manufacturing agreement with La Laiterie de Montaigu, a renowned French dairy manufacturer, for a term of three years from 1 January 2014 to 31 December 2016. Currently, the Group has three infant formula suppliers in European countries for premium quality infant formula products. Looking forward, the Group will strive to deepen cooperation with these foreign quality suppliers, cater to the Chinese consumers' needs for high-quality and safe infant formula products, and sustain the stable growth of the infant formula business.

Note:

(1) The inventory refers to the products owned by the distributors under the brand name of Biostime or BMcare.

While developing its procurement capacity and diversifying infant formula suppliers, the Group remained focused on maintaining the highest quality standards by only using full-formulation spray drying technique and placing quality and safety of its products in first priority by multilayer quality control and assurance. In February 2012, the Group opened a laboratory facility in France, which involves in infant formulas quality control steps of supplier manufacturing process and inspects product quality prior to shipping to China.

Attracting, retaining and engaging the best talent are all critical to the Group's continuous growth. In order to support this rapid growth, the Group has been steadily increasing the investment in developing and retaining its right talent, offering competitive compensation, various training and education opportunities. Also, since it went public, the Group has gradually developed and implemented an incentive system to attract and retain talented staff. In 2011 and 2012, on top of the existing Pre-IPO Share Option Scheme and the Share Option Scheme, the Group paid a total of RMB58.8 million to the trustee for the purchase of ordinary shares of the Company under the Share Award Scheme. In November 2012, the Group was named the "2012 Best Employer" by *Guangzhou Daily*, one of the most popular media in southern China.

To conclude, the Group believes that it is able to drive and sustain its growth because of its unique business model combined with a series of key growth drivers:

- A strong brand to support the success of high-quality products and market development;
- A sophisticated Mama100 Membership Programme with innovative database marketing strategies;
- An effective multi-channel sales model under the control of the real-time distribution management system;
- High-quality products and a consumer-oriented product innovation;
- A stringent quality assurance and control system;
- An efficient and passionate organization to support rapid expansion of business.

PROSPECTS

Looking forward into 2013, the Group expects the increase in babies born will continue in China while the baby product market will continue to benefit from the baby boom in the Chinese Year of Dragon in 2012. The Group is therefore confident to further capture tremendous opportunities in China's fast growing market of premium pediatric nutrition and baby care products.

Channel Expansion and Brand Building

The Group insists on its channel management model and imposes strict criteria in selecting retail store partners, thus resulting in a lower weighted distribution rate of the Group than its major competitors. This suggested more rooms for further expansion of the Group's distribution network. In view of such opportunities, the Group will continue to increase penetration into low-tier cities by consolidating distribution channels, which consist of baby specialty stores, retail sales organizations and pharmacies. By the end of 2013, the Group targets to increase the amount of its VIP baby specialty stores to 13,000, Mama100 Member's Zones in pharmacies to 1,500 and retail sales organizations to 5,000. The Group also intends to recruit more new Mama100 members while maintaining the existing high-end membership base, targeting to own about 2 million Mama100 active members in two years.

The way consumers obtain information is changing quickly and dramatically with the rapid development of the internet and the emergence of new media. To meet the need of consumers and sustain the Group's premium brand image, the Group will continue to invest in brand building efforts through its well-established multi-channel marketing platform, which consists of CCTV and 31 provincial TV stations, internet TV and search engines, new social networking platforms such as Weibo and WeChat, mobile terminals, parenting magazines and in-store displays.

New Initiatives

The Group realizes the diversification of high-end consumers' needs in selecting infant formulas. In order to satisfy the different needs, the Group has decided to launch new series of infant formulas in 2013 for the premium market segment.

Most of the current products in the Group's probiotic category are functional food. In order to further leverage the well-known brand equity and capture the business opportunity of probiotic in food market, the Group has decided to launch a new premium food-class probiotic product in 2013. This new product will complement the Group's current probiotic product portfolio, increase distribution rate of the probiotic category and fulfill the diversified needs of high-end consumers.

Member Services

The Group is always keen to understand and fulfill more members' needs in more parts of childcare more completely. Through Mama100 platform, the Group receives huge volume of member's purchasing data and interaction information. After analyzing the data, the Group will design and provide better member services to improve member satisfaction of the brand and the Group.

During the past few years, mobile application has become an important and easy way for consumers to obtain information and knowledge. In 2012, the Group introduced the first time a mobile app to its Mama100 members, enabling them to obtain information about parenting, make inquiries and redeem points through the app. Based on the feedbacks from its members and their hopes for placing orders and settling the payment directly on the app, the Group is currently planning, together with the current retail outlet partners, to build up an Online-to-Offline business model by integrating online ordering platform and offline logistic resource of retail outlets.

In 2013, the Group will accelerate the mobile software upgrade and cooperate with third party payment platform to install its payment system into Mama100 points POS machine, enabling members to place orders online, settle payment via debit/credit cards and accumulate or redeem points on the same POS machine. On the other hand, this can strengthen the collaboration with value-chain partners and create additional benefits for retail outlets by introducing new sales through the online platform and improving operation efficiency of POS machine.

Scientific parenting concepts, methods, interaction tools and a nutrition-balanced pediatric diet are an important and inseparable approach for parents to raise a physically, intellectually and emotionally healthy baby. The Group has received continuous feedback from members that they need professional and scientific guidance and services about baby and toddler's early education and psychological care. Through collaboration and joint-development with world-renowned experts and leading international organizations in Europe and the US specialized in neuroscience and children mental health, the Group will launch a parenting education brand – "Parenting Power" – to provide a comprehensive educational programme to cover both psychological care and physical development of babies and toddlers. As a key milestone of the development of Parenting Power, the Group announced, in November 2012, the publication of a special Chinese edition of the popular book *What Every Parent Needs to Know*, written by Dr. Margot Sunderland. This internationally acclaimed book, which won First Prize in the British Medical Association Medical Book Awards 2007 Popular Medicine Section, is the results of over ten years research on the long-term effects of parent-child interaction and provides parents with fundamental parenting principles and methods on the basis of neuroscience. In the coming years, the Group will continue to launch educational programmes and related tutorial materials to fulfill the emerging needs of parents.

R&D and Quality Management

Besides raw milk sources, other formula ingredients and manufacturing engineering technologies are also very important factors in producing premium-quality infant formulas. The Group has been working with European infant formula suppliers, using European raw milk sources and full formula spray-dry technology, to develop and manufacture high-quality infant formulas. The Group will continue its joint-development strategy to provide Chinese consumers with safe and premium infant formulas imported with original packaging.

As a long-term fundamental of the Group's R&D and Quality Management capability, the Group has started the construction of the Guangzhou R&D and Quality Analysis Centre in June 2012, which is scheduled to complete at the end of 2014. The Group has also built a new R&D team in Europe to focus on infant formula processing technology to improve product quality and develop innovative products. To continuously provide science-based products and services dedicated to baby development, a scientific institute – "Biostime Children Nutrition, Care and Psychology Behavior Institute" – will be operational in 2013, collaborating with third-party research organizations and top scientists in the field of pediatric nutrition and child psychology to conduct joint research, clinical studies and scientific consultancy.

Business Model Innovation

Mama100, as an integrated marketing platform, provides the Group's management with various kinds of market data in huge volume from internal and external resources, such as member data, channel data and retail outlet data. Leveraging on this comprehensive database, the Group can conduct precision data analysis in every aspect of business operation to support decision-making activities. The Group's business model design and innovation are largely related to member database development and the database analysis and application capability.

With the innovation of mobile terminal, cloud storage and data mining analytical tools, Big Database Marketing is gradually changing from a conceptual idea to a feasible action plan. The technology available today enables the Group to develop the Mama100 platform to gain a more comprehensive record of member purchasing behaviour, parenting information and individual preferences when the Group is interacting with its members, generating real-time market intelligence. 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.

CHALLENGES

In 2013, global inflation will continue to pose challenges to the Group through higher costs of raw material. To cope with this, the Group will strengthen its supply chain management, increase operational efficiency and leverage economies of scale to mitigate the risk and maintain profitability.

Competition will also intensified as the thriving consumer market will continue to attract new entrants into the high-end pediatric nutritional and baby care market in the future. However, with its market know how and unique business model, the Group is confident to leverage its core competencies and achieve success in 2013.

SOCIAL RESPONSIBILITY

Co-operating with the Chinese Red Cross Foundation, the Group has established the "Biostime China Foundation for Mother and Child" (the "Foundation") in 2007. The Group donates RMB0.1 to the Foundation for every unit sold. For the year of 2012, RMB2.7 million was raised for the Foundation, which has accumulated a total of RMB6.1 million as of year-end 2012, enabling the Foundation to help 183 children suffering from serious illnesses since its establishment. The first five years of cooperation ended in the year 2012 and the Group has further extended this cooperation for another five years starting from 2013.

In 2011, the Group co-operated 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" (the "Fund"), in order to support researches on the health and well-being of women and infants, including disease prevention and control. The Group pledges to donate not less than RMB1.0 million for the Fund every year for three consecutive years. In 2012, the Group donated a total of RMB1.0 million to the Fund.

RESULTS OF OPERATION

Revenue

During the year ended 31 December 2012, revenue increased by 54.5% to RMB3,381.9 million as compared with 2011, because of the continuous strong growth of sales generated from infant formulas and the double-digit growth of revenue generated from probiotic supplements. The following table sets forth the Group's revenue by product segment for the years indicated:

	Year ended 31 December		
	2012	2011	**% of growth**
	RMB'000	*RMB'000*	
Probiotic supplements	**379,203**	331,962	14.2%
Infant formulas	**2,715,291**	1,684,655	61.2%
Dried baby food products	**134,765**	97,126	38.8%
Baby care products	**105,989**	47,845	121.5%
Nutrition supplements	**46,653**	27,446	70.0%
Total	**3,381,901**	2,189,034	54.5%

Probiotic supplements

Revenue of probiotic supplements increased by 14.2% from RMB332.0 million in 2011 to RMB379.2 million in 2012. The double-digit growth was mainly due to the increase in sales volume, formulas improvement, performance enhancement of the sales team, and a range of marketing support services to mark the 10th anniversary of the business line.

Infant formulas

Revenue of infant formulas increased by 61.2% to RMB2,715.3 million in 2012 compared with 2011, accounting for 80.3% of the Group's total revenue. The increase was mainly due to the increased sales volume, which was primarily driven by the increase in the number of active Mama100 members, ever-growing market reputation and the expansion of distribution channel. The revenue of high-tier and supreme-tier infant formulas increased by 77.4% and 42.1%, respectively, in 2012 compared with 2011. The high-tier segment made up 59.4% of the Group's infant formulas business in 2012 and became the more significant growth contributor to the Group's infant formulas business. The Group will continue to grow in both the supreme-tier and high-tier infant formula segments.

Dried baby food products

Revenue of dried baby food products increased by 38.8% to RMB134.8 million in 2012 compared with 2011. The increase was mainly attributable to the continuous growth of revenue generated from organic baby cereal products and the newly introduced natural baby cereal products in October 2012.

Baby care products

Attributing to the precise database marketing and cross-selling strategy, revenue of baby care products increased by 121.5% to RMB106.0 million in 2012 compared with 2011. The increase was also attributable to the newly launched BMcare Essential & Natural series in 2012.

Nutrition supplements

In September 2011, the Group established the nutrition supplements business by introducing two new series of products, milk calcium chewable tablets and DHA chews/soft capsules for children and mothers. Revenue of nutrition supplements increased by 70.0% from RMB27.4 million in 2011 to RMB46.7 million in 2012, accounting for 1.4% of the Group's total revenue.

Gross profit and gross profit margin

Gross profit increased by 53.1% from RMB1,456.1 million in 2011 to RMB2,229.0 million in 2012, which was in line with the increase in revenue. Gross profit margin decreased slightly from 66.5% in 2011 to 65.9% in 2012, mainly due to the product mix impact and higher purchase prices of infant formulas charged by the supplier, while partially offset by the exchange gain from the depreciation of Euro. The share of high-tier infant formulas in infant formula's sales increased from 54.0% in 2011 to 59.4% in 2012, while high-tier infant formulas has a lower gross profit margin than that of supreme-tier infant formulas. Moreover, the portion of revenue derived from infant formulas, which has a lower gross profit margin than that of probiotic supplements, increased from 77.0% in 2011 to 80.3% in 2012.

Other income and gains

During the year ended 31 December 2012, other income and gains amounted to RMB56.9 million, representing a 20.7% decrease compared with the year ended 31 December 2011. The decrease was primarily due to the net foreign exchange loss in 2012 instead of the net foreign exchange gain in 2011, while partially offset by the increase in interest income.

Selling and distribution costs

Owing to the increase in investment in consumer communication and brand building, and the amortization expense under the Share Award Scheme, selling and distribution costs increased by 52.1% from RMB708.6 million in 2011 to RMB1,077.7 million in 2012. Attributing to the effective implementation of database marketing activities through Mama100 Membership Program and improvement of sales team dedication, selling and distribution costs as a percentage of revenue decreased from 32.4% in 2011 to 31.9% in 2012.

Administrative expenses

In order to better support the business growth and solidify the Group's infrastructure, the Group increased headcount of managerial employees and training expenses. Administrative expenses increased by 42.5% from RMB82.0 million in 2011 to RMB116.9 million in 2012. Due to the Group's effective management structure and enhanced economies of scale, administrative expenses as a percentage of revenue decreased from 3.7% in 2011 to 3.5% in 2012.

Other expenses

For the year ended 31 December 2012, other expenses amounted to RMB38.6 million, representing a 65.5% increase compared with the year ended 31 December 2011. Other expenses mainly consisted of R&D expenses, net foreign exchange loss and others. The increase was primarily due to the growth of R&D expenses and net foreign exchange loss. The R&D expenses increased by 37.6% to RMB27.2 million in 2012 compared with 2011, resulting from the increased joint development expenses and trial run costs with the Group's suppliers.

Net foreign exchange loss of RMB7.2 million was recorded in 2012, while a net foreign exchange gain of RMB52.8 million was recorded in 2011. The net foreign exchange loss was primarily derived from the depreciation of the Renminbi and Euro against the Hong Kong dollar relating to the Company's bank deposits denominated in Renminbi and Euro. At the end of the reporting period, the deposits denominated in Renminbi and Euro were translated to Hong Kong dollar, the functional currency of the Company, using the closing exchange rate, and the exchange differences shall be recognized in profit or loss in the period in which they arise.

Income tax expenses

The effective income tax rate increased from 26.1% in 2011 to 29.3% in 2012. The increase was mainly due to i) the impact of amortization expenses under the Share Award Scheme by approximately 1.1%, which was subject to income tax under the existing PRC tax rules and (ii) the increased portion of profit before tax contributed by BiosTime, Inc. (Guangzhou), which was subject to corporate income tax rate of 25.0%, and the decreased portion of profit before tax contributed by Biostime (Guangzhou) Health Products Limited, which enjoyed a preferential corporate income tax rate of 12.5% in 2012. In line with the increase in the Group's profit before tax, income tax expense increased by 64.8% from RMB186.6 million in 2011 to RMB307.5 million in 2012.

Profit before tax

2012 was a milestone year for the Group as the Group's profit before tax had reached over RMB1 billion, resulting from the effective control of operating expenses. Profit before tax up to RMB1,050.6 million in 2012, increased by 47.2% from RMB713.9 million in 2011.

LIQUIDITY AND CAPITAL RESOURCES

Free cash flow productivity

Free cash flow is defined as operating cash flow less capital spending. Free cash flow productivity is defined as the ratio of free cash flow to profit for the year. The Group's free cash flow productivity increased from 90.5% in 2011 to 122.2% in 2012. This strong free cash flow productivity allows the Group to maintain excellent credit rating and to have the flexibility to invest in business.

Operating activities

For the year ended 31 December 2012, the Group had net cash generated from operating activities of RMB947.2 million, consisting of cash generated from operations of RMB1,191.8 million, partially offset by income tax paid of RMB244.6 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB1,077.1 million before working capital adjustments and net positive changes in working capital of RMB114.7 million.

Investing activities

For the year ended 31 December 2012, net cash flows used in investing activities amounted to RMB1,850.5 million. The Group's net cash outflows for investing activities mainly consisted of (i) the increase in time deposits of RMB1,726.9 million, (ii) the increase in financing to suppliers of RMB123.3 million, (iii) purchase of property, equipment and intangible assets of RMB39.4 million, which primarily related to acquisitions of computers, coding machines, vehicles and computer software for business use and (iv) partially offset by interest received from the matured time deposits of RMB29.3 million.

Financing activities

For the year ended 31 December 2012, net cash used in financing activities amounted to RMB191.7 million, primarily reflecting the cash outflow from financing activities of (i) RMB404.0 million for the distribution of final and special dividends for the year ended 31 December 2011 and interim dividend for the six months ended 30 June 2012, and (ii) provision of RMB56.8 million to the trustee 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 RMB270.5 million of proceeds from bank loans.

Cash and bank balances

As of 31 December 2012, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,669.1 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB942.0 million, the Group's cash and bank balances amounted to RMB2,611.1 million as of 31 December 2012.

Inventories

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Raw materials	**185,647**	234,658
Raw materials in transit	**277,425**	18,494
Work in progress	**2,486**	1,175
Finished goods	**57,709**	43,060
Total	**523,267**	297,387

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; 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 68 days in 2011 to 79 days in 2012, which was within the management's expectation.

The average turnover days of trade and bills receivables maintained at 1 day for the years ended 31 December 2012 and 2011.

The average turnover days of inventories increased from 100 days for the year ended 31 December 2011 to 130 days for the year ended 31 December 2012, primarily because the Group stored up more inventories to satisfy the Group's anticipated sales growth, particularly for the infant formulas. On the other hand, the CIQ under AQSIQ had stricter quality inspection procedures for imported goods, and it took about two more weeks to obtain the sanitary certification. Taking no account of the raw materials in transit, the average turnover days of inventories decreased from 96 days in 2011 to 83 days in 2012.

The average turnover days of trade payables increased from 33 days in 2011 to 52 days in 2012, which was mainly due to management of time of payment.

USE OF PROCEEDS

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

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 use of the net proceeds from the global offering up to 31 December 2012 was as follows:

	Available to utilize *HK$ million*	**Utilized as at 31 December 2012** *HK$ million*	**% of available**
Enhancing and reinforcing the brand recognition and brand image	558.5	352.1	63.0%
Expanding business by cooperating with upstream suppliers	319.1	158.0	49.5%
Expanding and developing the sales distribution network and retail channels	239.3	178.9	74.8%
Investing in research and development and expanding production infrastructure and warehouses	239.3	33.3	13.9%
Upgrading the information technology system	79.8	30.8	38.6%
Working capital and other general corporate purposes	159.6	79.8	50.0%
	1,595.6	832.9	52.2%

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.

DIVIDENDS

The Board of Directors is glad to recommend the payment of a final dividend of HK$0.39 per ordinary share and a special dividend of HK$0.46 per ordinary share for the year ended 31 December 2012. Taking into account the interim dividend of HK$0.23 per ordinary share in respect of the six months ended 30 June 2012 paid in September 2012, the annual dividend for the year ended 31 December 2012 will amount to HK$1.08 per ordinary share, accounting for approximately 70.8% of profit for the year ended 31 December 2012.

Subjected to the approval of shareholders at the forthcoming annual general meeting to be held on 9 May 2013 (the "2013 AGM"), the final dividend and special dividend will be paid on or about 27 May 2013 to the shareholders whose names appear on the register of members of the Company on 20 May 2013.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2013 AGM

The register of members of the Company will be closed from 7 May 2013 to 9 May 2013, 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 2013 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 6 May 2013.

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

The register of members of the Company will be closed from 15 May 2013 to 20 May 2013, 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 14 May 2013.

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 Code on Corporate Governance Practices (the "Old CG Code"), which was revised and renamed as Corporate Governance Code (the "New CG Code") on 1 April 2012, contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). For the purpose of complying with the New CG Code, the Company adopted the revised code provisions contained in the New CG Code on 20 March 2012. Throughout the year ended 31 December 2012, the Company has complied with all the code provisions of the Old CG Code for the period from 1 January 2012 to 19 March 2012 and of the New CG Code for the period from 20 March 2012 to 31 December 2012, save and except for code provision A.2.1 of the Old CG Code and the New CG Code and code provision A.6.7 of the New CG Code, details of which are explained below.

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

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

Code provision A.6.7 of the New CG Code stipulates that independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders.

One executive Director, three non-executive Directors and an independent non-executive Director of the Company did not attend the annual general meeting of the Company (the "AGM") held on 30 April 2012 due to other work commitments. The Company will strengthen its AGM planning process, by giving all Directors sufficient time to arrange their work in advance and providing any necessary support for their presence and participation in the meeting, so as to facilitate all Directors attending the Company's future AGM.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that it complies with the New 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 2012.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2012.

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.

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

During the year ended 31 December 2012, 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 4,150,000 ordinary shares of the Company on the Stock Exchange at a total consideration of about HK$69,853,000.

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 2012.

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.

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

The main duties of the Audit Committee included the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal 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, reappointment and removal of external auditors;

- 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 2012 and the annual results for the year ended 31 December 2012, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 and the Annual Report for the year ended 31 December 2012, 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 reappointment 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.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the websites of the Company (www.biostime.com.cn) and the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2012 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders and available on the above websites in due course.

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

Hong Kong, 19 March 2013

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