

BIOSTIME

牽手妈妈·只为宝宝
HAND IN HAND FOR MUM & BABY

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)

Interim Report 2015

二零一五年中期報告



Contents



| | |
|--|-----------|
| Corporate Information | 4 |
| Financial Highlights | 6 |
| Management Discussion and Analysis | 7 |
| Corporate Governance and Other Information | 14 |
| Report on Review of Interim Condensed Consolidated Financial Statements | 27 |
| Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 29 |
| Interim Condensed Consolidated Statement of Financial Position | 30 |
| Interim Condensed Consolidated Statement of Changes in Equity | 32 |
| Interim Condensed Consolidated Statement of Cash Flows | 34 |
| Notes to Interim Condensed Consolidated Financial Statements | 36 |



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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 COMMITTEE

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. 3508, 35th Floor, West Tower
Shun Tak Centre
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

| | Six months ended 30 June | | |
|---|--------------------------|-----------------|-------------|
| | 2015 RMB'000 | 2014 RMB'000 | % of change |
| Revenue | 1,962,902 | 2,188,974 | (10.3%) |
| Gross profit | 1,142,904 | 1,345,601 | (15.1%) |
| Profit for the period | 204,955 | 312,223 | (34.4%) |
| Net cash flows from/(used in) operating activities | 147,428 | (192,984) | N/A |
| Basic earnings per share | RMB0.34 | RMB0.52 | (34.6%) |

REVENUE BY PRODUCT SEGMENT

Six months ended 30 June 2015

| | |
|---|-------|
| ● Infant Formulas | 86.5% |
| ● Probiotic Supplements | 8.8% |
| ● Dried Baby Food & Nutrition Supplements | 2.2% |
| ● Baby Care Products | 2.5% |

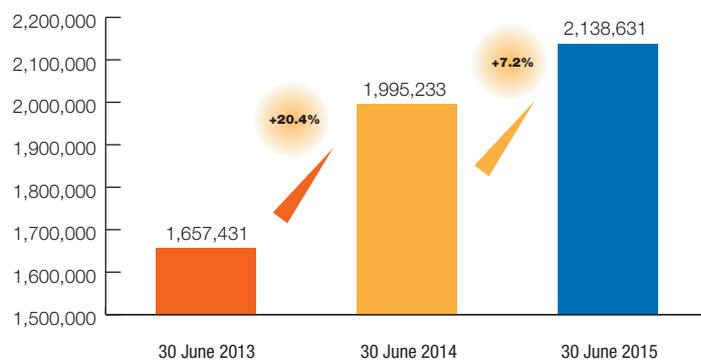


Six months ended 30 June 2014

| | |
|---|-------|
| ● Infant Formulas | 84.9% |
| ● Probiotic Supplements | 8.5% |
| ● Dried Baby Food & Nutrition Supplements | 3.3% |
| ● Baby Care Products | 3.3% |



NO. OF AVERAGE ACTIVE MAMA100 MEMBERS



BUSINESS REVIEW

During the first half of 2015, China's infant formula market remained challenging with intensified competition. More brands have entered the market while existing players have increased promotional price discounting activities in order to maintain their market shares. Besides, in order to coordinate the launch of "Biostime" branded SN-2 PLUS Balanced Formulas, which were scheduled to be launched at the end of June this year, Biostime International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") carried out active promotional price discounting activities on its previous version of infant formulas. Consequently, the revenue and profit of the Group for the six months ended 30 June 2015 decreased by approximate 10.3% and 34.4%, respectively, as compared with the corresponding period in 2014. Nevertheless, the Group maintained stable positive cash flow from operating activities. Without the effect of these exceptional promotional activities, the key financial performances of the Group remained within a normal range.

Despite the challenging circumstances, the Group managed to keep stable sales volume and consolidate its market position. According to Nielsen, an independent market research firm, the Group's share of the overall infant formula market in China increased to 6.0% in the first half of this year from 5.8% in the same period last year and the Group continued to rank as the third largest player offline. Meanwhile, the Group's online market share increased to 1.3% in the first half of this year and therefore the Group became one of the top ten online players, driven by rapid growth of its Business-to-Customer ("**B2C**") online sales.

According to the Group's plan, the Biostime SN-2 PLUS Balanced Formulas were launched at the end of June 2015. The formulas contain SN-2 PLUS structured lipid which is developed and customized for the Group by a world leading lipid provider, through lipid structure optimization technology. Such ingredient mimics the composition and properties of human milk fat and combines multiple nutrients to promote balanced growth of babies. The Group conducted, jointly with its strategic partners, a clinical study that has proven the benefits of the SN-2 PLUS formulas for Chinese babies. The Group is the first provider of infant formulas that adopts SN-2 PLUS structured lipid in China. The new products have now been distributed to the retail outlets and received preliminary positive feedback from both member stores and end-consumers.

At the same time, the Group continued to invest in brand building in the first half of this year. While maintaining sufficient exposure in the traditional media, the Group stepped up investment in marketing in the emerging media. Alongside the launch of "Biostime" branded SN-2 PLUS Balanced Formulas, the Group has placed new commercials on TV and advertisements on the Internet that highlight the milk source from Normandy, France and the SN-2 PLUS lipid structure technology to differentiate its products from those of the competitors. For "Adimil", the Group has appointed a celebrity as the brand's ambassador to endorse the brand's products in various marketing activities. The commercial of "Adimil" has also been placed in various media and, in particular, has been aired during the commercial breaks in a prime-time and most popular parent-child reality show on a satellite television.

In order to increase its products' market penetration, the Group continued to expand its sales network in the first half of 2015. At the end of the period under review, the number of the Group's VIP baby specialty stores, retail sales organizations and VIP pharmacies increased to 28,649, 6,933 and 4,869, respectively. As an important measure of channel management, the Group continued to track inventory and sales of its products at the distributors' level on a real-time basis to avoid excessive inventory. Such advanced real-time distribution management system enables the Group to deliver sustainable business growth. According to the system, the average inventory turnover days of the Group's distributors was about 38 days in the first half of 2015.

For online sales, the Group has entered the major third-party e-commerce platforms in China and actively expanded its B2C business. In the first half of this year, the Group's B2C business delivered remarkable performance, contributing 4.5% of the Group's total sales and growing by 527.2% in sales sequentially compared with that for the second half of last year. Going forward, the Group will conduct cross-category promotional activities on those platforms in order to further increase the contribution of B2C business.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's Mama100 platform has been operated independently since a separate team was assigned to it. The Group expects to develop Mama100 into an e-commerce platform based on baby stores which integrates both online and offline resources. Apart from carrying the Group's brands, Mama100 has also selected nearly 20 independent international and leading domestic baby product brands and introduced them into the platform since April this year. The average number of Mama100 active members increased by 7.2% year on year to 2,138,631 in the first half of 2015, while the combined number of Mama100 mobile APP registered users and Mama100 WeChat followers increased to approximately 2.9 million at the end of June 2015.

The Group has upgraded its operation in several other aspects. The Group's new R&D and quality control center in Guangzhou commenced operation in the first half of this year, marking a milestone in the enhancement of its R&D and quality management capabilities. The same period also witnessed the inauguration of the new plant for infant formula production at Isigny Sainte Mère ("ISM") in France. Built on a four-hectare plot near ISM's main premises and installed with the most modern and advanced production facility and equipment, this new plant will help ISM increase its milk powder production capacity and ensure a long-term supply of premium milk source and high quality products from Normandy, France to the Group.

PROSPECTS

Looking ahead to the second half of this year, the Group expects that the intense competition in the infant formula market will not abate. In such competitive environment, the Group believes that it is more than ever important to continue with investment in branding and marketing to maintain its market position and enhance its brand recognition.

The Group has been actively developing new product categories catering to the diverse needs of the Chinese mothers. The Group has observed the emerging market for organic and natural baby foods and thus recently acquired an American company, which owns a strong heritage US organic brand since 1980 and now has presence in several geographical markets such as North America and Asia. The Group plans to develop organic infant formulas and baby food products and introduce them into the Chinese market. At the same time, the Group will continue to diversify its baby care products, which is also within the Group's long-term strategy and vision to become a solution-oriented provider of nutritional and parenting products and services.

RESULTS OF OPERATION

Revenue

In the context of fierce market competition, for the six months ended 30 June 2015, the Group reported revenue at RMB1,962.9 million, representing a decrease of 10.3% from RMB2,189.0 million for the first half of 2014. The following table sets forth the Group's revenue by product segment for the periods indicated:

| | Six months ended 30 June | | | |
|--|--------------------------|-----------------|-----------------|-----------------|
| | 2015 RMB'000 | % of Revenue | 2014 RMB'000 | % of Revenue |
| Infant formulas | 1,697,843 | 86.5% | 1,858,928 | 84.9% |
| Probiotic supplements | 173,135 | 8.8% | 186,235 | 8.5% |
| Dried baby food and nutrition supplements | 43,128 | 2.2% | 70,597 | 3.3% |
| Baby care products | 48,796 | 2.5% | 73,214 | 3.3% |
| Total | 1,962,902 | 100.0% | 2,188,974 | 100.0% |

Infant formulas

To cope with the intensified market competition, the Group carried out a series of marketing campaigns during the first half of 2015, among which was the exceptional active promotional price discounting activities in order to coordinate the scheduled launch of the “Biostime” branded SN-2 PLUS Balanced Formulas at the end of June 2015. As a result, revenue from the Group’s infant formulas segment decreased by 8.7% from RMB1,858.9 million for the six months ended 30 June 2014 to RMB1,697.8 million in the corresponding period of 2015. Despite of the headwind, driven by the steady growth of Mama100 active members as well as the retail outlets expansion, sales volume remained stable during the period under review as compared to the first half of 2014. Owing to the expanded product category, revenue from high-tier infant formulas accounted for 66.3% of total sales within the segment during the first half of 2015, representing an increase of 4.7 percentage points from 61.6% for the corresponding period in 2014.

Probiotic supplements

Sales volume of the probiotic supplements increased by 1.6% comparing the first half of 2015 to that of 2014. For the six months ended 30 June 2015, revenue from probiotic supplements amounted to RMB173.1 million, declining by 7.0% as compared with the same period of 2014. The decrease was mainly due to the increased rewards to customers related to a series of promotional activities.

Dried baby food and nutrition supplements

Revenue of dried baby food and nutrition supplements declined by 38.9% to RMB43.1 million for the six months ended 30 June 2015 compared with the same period of 2014. The decrease was mainly due to the unstable supply of baby cereal products in the new facility. Supply of baby cereal products has resumed by the end of the first half of 2015.

Baby care products

For the six months ended 30 June 2015, revenue of baby care products decreased by 33.4% to RMB48.8 million compared with the same period last year. The decrease in revenue was due to the combined effects of: i) the unstable supply of diapers in the supplier’s new factory which was put into production in the first half of 2015; and ii) the continuous sales team building within the segment.

Gross profit and gross profit margin

During the first half of 2015, the Group recorded gross profit at an amount of RMB1,142.9 million, which decreased by 15.1% compared with the same period last year. Gross profit margin decreased from 61.5% for the six months ended 30 June 2014 to 58.2% for the same period of 2015. The decrease in gross profit margin mainly resulted from the clearance of the previous version of infant formulas stocks to coordinate the scheduled launch of SN-2 PLUS formulas with active promotional price discounting activities carried out during the first half of 2015. Without the effect of these exceptional promotional activities, gross profit of the Group remained within a normal range. The decrease in gross profit margin was partially offset by the improved product mix, more favorable exchange rate on the Group’s Euro denominated raw material purchase and the lowered procurement costs.

Other income and gains

Other income and gains for the six months ended 30 June 2015 amounted to RMB68.8 million, primarily consisting of the interest income of RMB62.6 million, government subsidies of RMB3.1 million and others. Other income increased by RMB15.3 million during the six months ended 30 June 2015 compared with the same period last year. The increase was mainly attributable to the increase of interest income from the Group’s time deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution costs

Selling and distribution costs decreased by 6.8% from RMB800.4 million for the six months ended 30 June 2014 to RMB746.2 million during the same period this year. To coordinate the scheduled launch of the SN-2 PLUS formulas as well as the clearance of the previous version of infant formulas stocks, according to its annual marketing plan, the Group will place its TV advertisement mainly in the second half of 2015, resulting in a saving of the selling and distribution costs for the first half of this year. Besides, selling and distribution costs decreased as the Group streamlined its sales promoters due to the improved promotion efficiency. The decrease on the selling and distribution costs was partially offset by the increased expenditures on the emerging media to cope with the new customer behaviors and the investment in the brand building activities related to the scheduled launch of the SN-2 PLUS formulas in the coming periods. The selling and distribution costs as a percentage of revenue increased from 36.6% for the six months ended 30 June 2014 to 38.0% during the corresponding period of 2015. The Group will continue to invest in brand building to sustain the long-term growth.

Administrative expenses

For the six months ended 30 June 2015, administrative expense of the Group amounted to RMB80.2 million, representing a decrease of 6.8% compared with the same period of 2014. The decrease of the administrative expenses was driven by the increased operation efficiency of the Group. The percentage of administrative expenses to revenue was 4.1% in the first half of 2015, which remained stable comparing to the same period of 2014.

Other expenses

Other expenses for the six months ended 30 June 2015 amounted to RMB57.2 million, primarily consisting of net exchange loss of RMB11.6 million, R&D expenses of RMB42.0 million and others. The increase in other expenses was mainly due to the increase in R&D expenses. The Group stepped up investments to enhance its R&D and quality management capabilities, striving to provide safe and science-based products and services to satisfy Chinese customers' needs.

Finance costs

During the six months ended 30 June 2015, the Group incurred finance costs of RMB47.6 million, mainly representing non-cash interest expense of the Convertible Bonds.

Income tax expenses

Income tax expenses decreased by 37.9% from RMB121.1 million for the first half of 2014 to RMB75.2 million in the corresponding period of 2015. The effective tax rate declined from 27.9% for the six months ended 30 June 2014 to 26.8% in the period under review.

Profit for the year

During the six months ended 30 June 2015, the Group recorded profit after tax at RMB205.0 million, representing a decrease of 34.4% from RMB312.2 million in the corresponding period last year.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2015, the Group reported net cash generated from operating activities of RMB147.4 million, consisting of cash generated from operations of RMB360.9 million, partially offset by income tax paid of RMB213.5 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB317.7 million before working capital adjustments and positive changes in working capital of RMB43.2 million. Comparing to a net cash outflow from operating activities of RMB193.0 million in the same period last year, the net cash generated from operation activities for the period under review reflected the Group's efforts in maintaining its inventory turnover days at a healthy level, and thus freeing up cash as a result.

Investing activities

For the six months ended 30 June 2015, net cash used in investing activities amounted to RMB58.2 million. The Group's net cash outflows for investing activities mainly consisted of prepayment for acquisition of a subsidiary of RMB60.9 million and capital expenditures of RMB63.3 million, while partially offset by the repayment from loans receivables of RMB21.0 million, interest received of RMB21.9 million and a decrease of time deposits of RMB21.4 million.

Financing activities

During the first half of 2015, net cash used in financing activities amounted to RMB50.5 million. It primarily reflected the distribution of the dividends to the shareholders of the Company of RMB196.1 million as well as the repayment of bank loan of RMB34.4 million, partially offset by the new bank loans drawn down of RMB169.0 million.

Cash and bank balances

As of 30 June 2015, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB3,998.2 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB478.9 million, the Group's cash and bank balances amounted to RMB4,477.1 million as of 30 June 2015.

Convertible bonds and interest-bearing bank loans

As of 30 June 2015, the outstanding Convertible Bonds (the details of which are set out in note 27 to the interim condensed consolidated financial statements) amounted to RMB2,455.7 million. No Convertible Bonds were converted into shares of the Company during the reviewing period. The Group's outstanding interest-bearing bank loans amounted to RMB134.6 million as of 30 June 2015. The loans are payable within one year. Taking the Convertible Bonds and interest-bearing bank loans into consideration, the gearing ratio was 39.2%. The gearing ratio is calculated by dividing the sum of the carrying amount of the Convertible Bonds and interest-bearing bank loans by total assets.

Inventories

| | 30 June 2015 RMB'000 | 31 December 2014 RMB'000 |
|--------------------------|-------------------------|-----------------------------|
| Raw materials | 294,149 | 535,693 |
| Raw materials in transit | 164,648 | 156,031 |
| Work in progress | 5,718 | 2,491 |
| Finished goods | 161,946 | 102,812 |
| Total | 626,461 | 797,027 |

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⁾.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Working capital cycle

The Group's cash cycle decreased from 157 days for the first half of 2014 to 104 days in the same period of 2015.

During the six months ended 30 June 2015, the average turnover days of trade and bills receivables was 2 days, slightly increased by 1 day from the corresponding period of last year.

The Group planned to launch the SN-2 PLUS formulas at the end of June 2015. In order to coordinate this launch, the Group carried out a series of promotional activities for the previous infant formulas series in the first half of 2015, leading the average inventory turnover days to decline by 67 days from 223 days for the first half of 2014 to 156 days in the same period of 2015. The Group strived to maintain its inventory level at a healthy level to avoid excess inventory and deep discounting. As compared with the first half of 2014, inventory turnover days at the distributors' level increased by 9 days to 38 days in the first half of 2015. The increase in inventory turnover days at the distributors' level reflected the distributors stocking up new series of infant formulas for the coming periods.

The average turnover days of the trade payables decreased from 67 days in first half of 2014 to 54 days in the corresponding period this year, which was mainly due to the increased purchase from suppliers with shorter credit terms.

COMMITMENTS

Details of the Group's commitments are stated in note 34 to the interim condensed consolidated financial statements.

CONTINGENT LIABILITIES

As of 30 June 2015, the Group did not have any material contingent liabilities.

CHARGE OF ASSETS

None of the Group's assets was pledged as of 30 June 2015.

FOREIGN CURRENCY RISKS

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the unit's functional currencies. A majority 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 Euro.

The Group did not enter into any foreign exchange forward contracts to hedge against foreign exchange fluctuations. 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.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the six months ended 30 June 2015, the Group did not have any significant investments, material acquisitions or disposal of subsidiaries.

HUMAN RESOURCES

As at 30 June 2015, the Group had approximately 3,000 employees in Mainland China, Hong Kong, France and Ireland. In order to support its growth, the Group has been steadily increasing the investment in developing and retaining its right talent, offering them with competitive compensation, various training and education opportunities. Also, since the Company listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the Group has gradually developed and implemented an incentive system to attract and retain talented staff. Up to 30 June 2015, the Group had in total granted 15,782,130 share options under the Pre-IPO Share Option Scheme and Share Option Scheme (adopted on 12 July 2010 and 25 November 2010, respectively), awards for 6,770,329 shares under the Share Award Scheme (adopted on 28 November 2011), and awards for 2,103,316 shares under the 2013 Share Award Scheme (adopted on 29 November 2013), respectively.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as its own code of corporate governance. Except for the deviations from code provisions A.2.1 and C.1.2 as disclosed below, the Company has complied with the code provisions contained in the CG Code for the six months ended 30 June 2015.

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

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

Under code provision C.1.2 of the CG Code, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer’s performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. During the six months ended 30 June 2015, as the Board had held 2 meetings, in addition to the regular Board meetings, to discuss and consider certain specific affairs of the Group, instead of monthly updates, the management of the Company had provided the Board with updates of the Group before and during each of such meetings to keep all Directors abreast of the performance, position and prospects of the Group.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2015.

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

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the six months ended 30 June 2015.

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

AUDIT COMMITTEE

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

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

The Audit Committee has held meetings together with the external auditors to discuss the auditing, internal controls and financial reporting matters including the review of the interim results and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2015.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 25 November 2010 with written terms of reference in compliance with the CG Code. The Remuneration Committee consists of three members, namely Mr. Tan Wee Seng, Mr. Luo Fei and Dr. Ngai Wai Fung, the majority of whom are independent non-executive Directors. Mr. Tan Wee Seng was appointed as the chairman of the Remuneration Committee.

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 procedures for developing such remuneration policy and structure to ensure that no Director or any of his close 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.

NOMINATION COMMITTEE

The Nomination Committee was established on 25 November 2010 with written terms of reference in compliance with the CG Code. The chairman is Mr. Luo Fei, an executive Director, and the two other members are Dr. Ngai Wai Fung and Mr. Tan Wee Seng, both of whom 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.

NOMINATION COMMITTEE (CONTINUED)

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. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

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 general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees are available to answer questions at shareholders' meetings.

The last shareholders' meeting was the annual general meeting held on 15 May 2015 at Gloucester Room I, 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. All proposed ordinary resolutions were passed by way of poll at the meeting.

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 are available for public access. Investors may write directly to the Company or via email to IR@biostime.com.cn for any enquiries.

REVIEW OF INTERIM FINANCIAL INFORMATION

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of this interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2015.

The interim condensed consolidated financial statements for the six months ended 30 June 2015 have not been audited but have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2015.

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

A share option scheme (the “**Share Option Scheme**”) of the Company was conditionally approved by resolutions of the shareholders of the Company on 25 November 2010 and the terms of such Share Option Scheme are disclosed in the prospectus of the Company dated 3 December 2010.

No share options (the “**Share Options**”) under the Share Option Scheme were granted to any grantees (the “**Grantees**”) during the six months ended 30 June 2015.

Particulars and movements of Share Options under the Share Option Scheme during the six months ended 30 June 2015 by category of Grantees were as follows:

| Category of Grantees | Date of grant (DD/MM/YYYY) | Exercise price per share | Number of Share Options | | | | Outstanding as at 30 June 2015 |
|----------------------|-------------------------------|-----------------------------|--|--|--|---|--------------------------------------|
| | | | Outstanding as at 1 January 2015 | Granted during the six months ended 30 June 2015 | Exercised during the six months ended 30 June 2015 | Lapsed during the six months ended 30 June 2015 | |
| 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 | 531,955 | - | (130,883) ⁽¹⁾ | (60,440) | 340,632 |
| | 29/11/2011 | HK\$11.52 | 543,594 | - | (126,302) ⁽²⁾ | (46,198) | 371,094 |
| | 01/06/2012 | HK\$19.64 | 445,530 | - | (69,163) ⁽³⁾ | (26,515) | 349,852 |
| | 07/12/2012 | HK\$24.70 | 917,741 | - | (157,118) ⁽⁴⁾ | (36,333) | 724,290 |
| Total | | | 2,738,820 | - | (483,466) | (169,486) | 2,085,868 |

Note 1: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$35.64.

Note 2: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$34.62.

Note 3: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$35.18.

Note 4: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$37.13.

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (Continued)

All Share Options granted since the adoption of the Share Option Scheme till 30 June 2015 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 |

No Share Options granted under the Share Option Scheme were cancelled during the six months ended 30 June 2015.

The total number of shares available for issue under the Share Option Scheme is 57,453,987, representing approximately 9.47% and 9.43% of the Company’s issued share capital as at the date of the Company’s 2014 annual report and as at the date of this interim report, respectively.

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 granted under the Pre-IPO Share Option Scheme (“**Pre-IPO Share Options**”) 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 17 December 2010, the date of the listing of the shares of the Company on the Main Board of the Stock Exchange (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 Pre-IPO Share Options.

SHARE OPTION SCHEMES (CONTINUED)**Pre-IPO Share Option Scheme (Continued)**

A total of 11,150,249 Pre-IPO Share Options 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\$1.00 paid by each grantee. During the six months ended 30 June 2015, 12 employees were no longer eligible for Pre-IPO Share Options due to their failure to meet performance target or retirement, and as a result, a total of 156,333 Pre-IPO Share Options lapsed. Particulars and movements of Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the six months ended 30 June 2015 by category of grantees are set out below:

| Category of grantees | Number of Pre-IPO Share Options | | | Outstanding as at 30 June 2015 |
|---------------------------|-------------------------------------|--|---|-----------------------------------|
| | Outstanding as at 1 January 2015 | Exercised during the six months ended 30 June 2015 | Lapsed during the six months ended 30 June 2015 | |
| Directors | | | | |
| Mr. Luo Fei | 621,239 | – | – | 621,239 |
| Ms. Kong Qingjuan | 381,558 | – | – | 381,558 |
| Sub-total | 1,002,797 | – | – | 1,002,797 |
| Others | | | | |
| Senior management members | 1,907,322 | (762,400) ⁽¹⁾ | (87,681) | 1,057,241 |
| Other employees | 3,918,756 | (1,265,161) ⁽²⁾ | (68,652) | 2,584,943 |
| Business partners | 100,000 | – | – | 100,000 |
| Sub-total | 5,926,078 | (2,027,561) | (156,333) | 3,742,184 |
| Total | 6,928,875 | (2,027,561) | (156,333) | 4,744,981 |

Note 1: The weighted average closing price of these shares immediately before the dates on which the relevant Pre-IPO Share Options were exercised is HK\$36.12.

Note 2: The weighted average closing price of these shares immediately before the dates on which the relevant Pre-IPO Share Options were exercised is HK\$34.69.

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were cancelled during the six months ended 30 June 2015.

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 4,744,981, representing approximately 0.78% and 0.78% of the Company's issued share capital as at the date of the Company's 2014 annual report and as at the date of this interim report, respectively.

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.

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 shares 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 six months ended 30 June 2015, the Board neither granted any awarded shares to eligible persons under the Share Award Scheme nor arranged any funds to be paid to the trustee of the Share Award Scheme for purchasing of shares of the Company on the Stock Exchange. The trustee of the Share Award Scheme did not purchase any shares of the Company on the Stock Exchange during the six months ended 30 June 2015.

SHARE AWARD SCHEME (CONTINUED)

Summary of particulars of the shares awarded under the Share Award Scheme (the “**Awarded Shares**”) during the six months ended 30 June 2015 are set out below:

| Date of grant | Number of Awarded Shares granted | Approximate percentage of the Company's share capital as at the Adoption Date | Vesting date | Number of Awarded Shares | | |
|-----------------|----------------------------------|---|-----------------|---------------------------|------------------------------|---|
| | | | | Vested as at 30 June 2015 | Forfeited as at 30 June 2015 | Outstanding (held by the trustee for the grantees) as at 30 June 2015 |
| 10 October 2014 | 662,427 ⁽¹⁾ | 0.110% | 30 October 2015 | – | (71,827) | 590,600 |

Note 1: Among these Awarded Shares granted, 11,600 Awarded Shares were granted to Mr. Luo Fei, the Chief Executive Officer, an executive Director and the Chairman of the Company, and 6,000 Awarded Shares were granted to Ms. Kong Qingjuan, the Chief Operating Officer and an executive Director.

2013 SHARE AWARD SCHEME

The Board also adopted a 2013 share award scheme (the “**2013 Share Award Scheme**”) on 29 November 2013, which was further amended on 14 May 2015. It 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 person who is eligible to participate in the 2013 Share Award Scheme (the “**Selected Participant**”) or a group of Selected Participants 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 Participant(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 Participants 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).

CORPORATE GOVERNANCE AND OTHER INFORMATION

2013 SHARE AWARD SCHEME (CONTINUED)

Where, awarded shares (the “**Returned Shares**”) which are referable to a Selected Participant, 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 Participants 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 Participants 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 Participant 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.

On 10 October 2014, the Board resolved to grant awards comprising a total of 2,103,316 awarded shares (the “**2014 Batch 2 Awarded Shares**”) to 1,018 Selected Participants by way of (i) allocation of the 1,265,644 Returned Shares, which were the awards granted earlier under the 2013 Share Award Scheme that did not vest due to the relevant Selected Participants failed to meet their performance targets specified in the grant letters pursuant to the 2013 Share Award Scheme; and (ii) allotment of 837,672 new shares of the Company pursuant to the 2013 Share Award Scheme and the general mandate granted by the shareholders of the Company at the annual general meeting held on 8 May 2014. On 20 October 2014, the Stock Exchange granted the listing of, and permission to deal in the 2014 Batch 2 Awarded Shares.

Summary of particulars of the 2014 Batch 2 Awarded Shares during the six months ended 30 June 2015 are set out below:

| Date of grant | Number of awarded shares granted under the 2013 Share Award Scheme | Approximate percentage of the Company's share capital as at the adoption date of the 2013 Share Award Scheme | Vesting date | Number of awarded shares | | |
|-----------------|--|--|------------------|---------------------------|------------------------------|--|
| | | | | Vested as at 30 June 2015 | Forfeited as at 30 June 2015 | Outstanding (held by the trustee for the Selected Participants) as at 30 June 2015 |
| 10 October 2014 | 2,103,316 | 0.349% | 30 November 2015 | - | (283,680) | 1,819,636 |

On 1 July 2015, the Board resolved to grant awards comprising a total of 136,600 awarded shares (the “**2015 Batch 1 Awarded Shares**”) to two Selected Participants by way of allotment of new shares pursuant to the 2013 Share Award Scheme and the general mandate granted by the shareholders of the Company at the annual general meeting held on 15 May 2015. On 16 July 2015, the Stock Exchange granted the listing of, and permission to deal in the 2015 Batch 1 Awarded Shares. As of the date of this interim report, the 2015 Batch 1 Awarded Shares have not been allotted or issued by the Company to the trustee of the 2013 Share Award Scheme yet. Pursuant to the 2013 Share Award Scheme, the 2015 Batch 1 Awarded Shares shall be subscribed by the trustee no later than 40 business days before the abovementioned vesting date.

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

As at 30 June 2015, the interests and short positions of the Directors and the chief executive of the Company and their respective close associates in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong, 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 6) |
|------------------|-----------------------------|---------------------|---|---|
| Luo Fei | Beneficial owner | Long position | 621,239 (Note 1) | 0.102% |
| | Beneficial owner | Long position | 194,100 (Note 2) | 0.032% |
| | Beneficiary of a trust | Long position | 450,000,000 (Note 3) | 73.851% |
| Luo Yun | Beneficiary of a trust | Long position | 450,000,000 (Note 3) | 73.851% |
| Kong Qingjuan | Beneficial owner | Long position | 381,558 (Note 1) | 0.063% |
| | Beneficial owner | Long position | 99,000 (Note 4) | 0.016% |
| Ngai Wai Fung | Beneficial owner | Long position | 100,000 (Note 5) | 0.016% |
| Tan Wee Seng | Beneficial owner | Long position | 100,000 (Note 5) | 0.016% |
| Xiao Baichun | Beneficial owner | Long position | 100,000 (Note 5) | 0.016% |

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" above.

Note 2: These are 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 11,600 Awarded Shares granted on 10 October 2014. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" above.

Note 3: As at 30 June 2015, Biostime Pharmaceuticals (China) Limited was owned as to 47.71% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 59.00% by Flying Company Limited and 41.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited.

UBS Trustees (BVI) Limited, the trustee of each of the family trusts set up by Mr. Luo Fei as the settlor (the "Mr. Luo Fei's Family Trust") and Mr. Luo Yun as the settlor (the "Mr. Luo Yun's Family Trust"), through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively.

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

Note 4: 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 6,000 Awarded Shares granted on 10 October 2014. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" above.

Note 5: 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" above.

Note 6: As at 30 June 2015, the total number of the issued shares of the Company was 609,336,792.

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 30 June 2015.

Save as disclosed above, at no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under eighteen years old) to hold any interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2015, the following persons, other than any Director or the chief executive of the Company, were the substantial shareholders (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 2) |
|---|--------------------------------------|---------------------|------------------|--|
| Biostime Pharmaceuticals (China) Limited (Note 1) | Beneficial owner | Long position | 450,000,000 | 73.851% |
| Flying Company Limited (Note 1) | Interest in a controlled corporation | Long position | 450,000,000 | 73.851% |
| Sailing Group Limited (Note 1) | Interest in a controlled corporation | Long position | 450,000,000 | 73.851% |
| Coliving Limited (Note 1) | Interest in a controlled corporation | Long position | 450,000,000 | 73.851% |
| UBS Trustees (BVI) Limited (Note 1) | Trustee | Long position | 450,000,000 | 73.851% |

Note 1: As at 30 June 2015, Biostime Pharmaceuticals (China) Limited was owned as to 47.71% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 59.00% by Flying Company Limited and 41.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited.

UBS Trustees (BVI) Limited, the trustee of each of the Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust, through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company.

Note 2: As at 30 June 2015, the total number of the issued shares of the Company was 609,336,792.

Save as mentioned above, as at 30 June 2015, 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.

CHANGES IN INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

There are no changes in information of Directors of the Company required to be disclosed in this interim report pursuant to Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2015 (six months ended 30 June 2014: HK\$0.26 per ordinary share).



To the board of directors of Biostime International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Biostime International Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages 29 to 68, which comprise the interim condensed consolidated statement of financial position as at 30 June 2015, the interim condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”) issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

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

18 August 2015

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Six months ended 30 June 2015

| | | Six months ended 30 June | |
|--|-------|---------------------------------|--------------------|
| | | 2015 | 2014 |
| | Notes | RMB'000 | RMB'000 |
| | | (Unaudited) | (Unaudited) |
| REVENUE | 5 | 1,962,902 | 2,188,974 |
| Cost of sales | | (819,998) | (843,373) |
| Gross profit | | 1,142,904 | 1,345,601 |
| Other income and gains | 5 | 68,840 | 53,559 |
| Selling and distribution costs | | (746,158) | (800,380) |
| Administrative expenses | | (80,212) | (86,059) |
| Other expenses | | (57,224) | (38,999) |
| Finance costs | 6 | (47,550) | (40,346) |
| Share of profits and losses of an associate | 18 | (482) | (42) |
| PROFIT BEFORE TAX | 7 | 280,118 | 433,334 |
| Income tax expense | 8 | (75,163) | (121,111) |
| PROFIT FOR THE PERIOD | | 204,955 | 312,223 |
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | 125 | (2,076) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 205,080 | 310,147 |
| Profit attributable to owners of the parent | | 204,955 | 312,223 |
| Total comprehensive income attributable to owners of the parent | | 205,080 | 310,147 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 10 | RMB | RMB |
| Basic | | 0.34 | 0.52 |
| Diluted | | 0.33 | 0.51 |

Details of the dividends declared and paid for the period are disclosed in note 9 to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2015

| | Notes | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 518,773 | 478,032 |
| Prepaid land lease payments | 12 | 62,504 | 63,243 |
| Goodwill | 13 | 76,000 | 76,000 |
| Intangible assets | 14 | 101,164 | 104,110 |
| Bonds receivable | 15 | 120,066 | 130,302 |
| Loans receivable | 16 | 61,337 | 53,531 |
| Prepayments and deposits | 17 | 96,911 | 15,741 |
| Investment in an associate | 18 | 40,110 | 40,592 |
| Loan to an associate | 18 | 40,000 | 40,000 |
| Held-to-maturity investment | 19 | 17,332 | 18,810 |
| Time deposits | 23 | 478,890 | 1,146,183 |
| Deferred tax assets | 28 | 157,143 | 128,896 |
| Total non-current assets | | 1,770,230 | 2,295,440 |
| CURRENT ASSETS | | | |
| Inventories | 20 | 626,461 | 797,027 |
| Trade and bills receivables | 21 | 22,395 | 12,043 |
| Prepayments, deposits and other receivables | 22 | 177,969 | 137,467 |
| Loans receivable | 16 | 16,175 | 39,457 |
| Derivative financial instrument | 16 | 2,568 | 2,570 |
| Cash and cash equivalents | 23 | 3,998,204 | 3,347,157 |
| Total current assets | | 4,843,772 | 4,335,721 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 24 | 193,375 | 294,542 |
| Other payables and accruals | 25 | 710,723 | 737,494 |
| Interest-bearing bank loans | 26 | 134,610 | – |
| Tax payable | | 122,535 | 235,588 |
| Total current liabilities | | 1,161,243 | 1,267,624 |
| NET CURRENT ASSETS | | 3,682,529 | 3,068,097 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,452,759 | 5,363,537 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2015

| | Notes | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--|-------|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,452,759 | 5,363,537 |
| NON-CURRENT LIABILITIES | | | |
| Convertible bonds | 27 | 2,455,707 | 2,410,526 |
| Deferred tax liabilities | 28 | 38,941 | 35,924 |
| Total non-current liabilities | | 2,494,648 | 2,446,450 |
| Net assets | | 2,958,111 | 2,917,087 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 30 | 5,217 | 5,197 |
| Equity component of convertible bonds | 27 | 66,978 | 66,978 |
| Reserves | | 2,885,916 | 2,844,912 |
| Total equity | | 2,958,111 | 2,917,087 |

Luo Fei

Director

Kong Qingjuan

Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2015

| | | Attributable to owners of the parent | | | | | | | | | | | |
|---|--|--------------------------------------|-----------------------|---------------------------------------|---|------------------------------------|--------------------------------|----------------------------------|----------------------|---------------------|------------------------------|------------------------|-----------|
| Notes | | Issued capital | Share premium account | Equity component of convertible bonds | Shares held for the share award schemes | Contributed surplus ⁽¹⁾ | Capital reserve ⁽²⁾ | Statutory reserve ⁽³⁾ | Share option reserve | Share award reserve | Exchange fluctuation reserve | Retained profits | Total |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2015 | | 5,197 | 198,021 | 66,978 | (42,141) | 26,992 | 95 | 346,624 | 25,418 | 10,862 | (65,324) | 2,344,365 [‡] | 2,917,087 |
| Profit for the period | | - | - | - | - | - | - | - | - | - | - | 204,955 | 204,955 |
| Other comprehensive income for the period: | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | - | - | - | (125) | - | (125) |
| Total comprehensive income for the period | | - | - | - | - | - | - | - | - | - | (125) | 204,955 | 204,830 |
| Equity-settled share option arrangements | | 31 | 20 | 17,378 | - | - | - | - | (6,005) | - | - | - | 11,393 |
| Shares awarded under the share award schemes | | 32 | - | - | - | - | - | - | - | 20,851 | - | - | 20,851 |
| Final 2014 dividend declared | | 9 | - | - | - | - | - | - | - | - | - | (196,050) | (196,050) |
| At 30 June 2015 | | 5,217 | 215,399 [*] | 66,978 | (42,141) [*] | 26,992 [*] | 95 [*] | 346,624 [*] | 19,413 [*] | 31,713 [*] | (65,449) [*] | 2,353,270 [*] | 2,958,111 |
| At 1 January 2014 | | 5,161 | 182,696 | - | (67,167) | 26,992 | 95 | 304,524 | 26,791 | 35,235 | (59,743) | 2,061,009 | 2,515,593 |
| Profit for the period | | - | - | - | - | - | - | - | - | - | - | 312,223 | 312,223 |
| Other comprehensive income for the period: | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | - | - | - | 2,076 | - | 2,076 |
| Total comprehensive income for the period | | - | - | - | - | - | - | - | - | - | 2,076 | 312,223 | 314,299 |
| Equity-settled share option arrangements | | | 16 | 12,201 | - | - | - | - | (2,027) | - | - | - | 10,190 |
| Shares awarded under the share award schemes | | | - | - | - | 25,043 | - | - | - | (35,235) | - | 11,374 | 1,182 |
| Issue of convertible bonds | | 27 | - | - | 66,978 | - | - | - | - | - | - | - | 66,978 |
| Final 2013 dividend paid | | 9 | - | - | - | - | - | - | - | - | - | (210,508) | (210,508) |
| Special 2013 dividend paid | | 9 | - | - | - | - | - | - | - | - | - | (157,881) | (157,881) |
| At 30 June 2014 | | 5,177 | 194,897 | 66,978 | (42,124) | 26,992 | 95 | 304,524 | 24,764 | - | (57,667) | 2,016,217 [#] | 2,539,853 |

* These reserve accounts comprise the consolidated reserves of RMB2,885,916,000 in the interim condensed consolidated statement of financial position as at 30 June 2015.

Retained profits have been adjusted for the proposed dividend in accordance with the current period's presentation, which is described in note 3.1 to the interim condensed consolidated financial statements.

Notes:

- (1) The 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.
- (2) The capital reserve represents the 1% of equity in Biostime (Guangzhou) Health Products Limited contributed by Biostime Pharmaceuticals (China) Limited ("**Biostime Pharmaceuticals**"), the ultimate shareholder, in year 2009 when Biostime Health became a wholly-owned subsidiary of the Group.
- (3) In accordance with the Company Law of the People's Republic of China (the "**PRC**"), 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, 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.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2015

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 280,118 | 433,334 |
| Adjustments for: | | | |
| Bank interest income | 5 | (57,076) | (45,352) |
| Interest income from loans and bonds receivables | 5 | (5,525) | (3,686) |
| Finance costs | 6 | 47,550 | 40,346 |
| Depreciation | 7 | 25,339 | 20,589 |
| Amortisation of intangible assets | 7 | 4,031 | 3,436 |
| Amortisation of prepaid land lease payments | 7 | 739 | 739 |
| Write-down of inventories to net realisable value | 7 | 755 | 578 |
| Equity-settled share option expense | 7 | 483 | 2,737 |
| Equity-settled share award expense | 7 | 20,851 | 1,182 |
| Loss on disposal of items of property, plant and equipment | | – | 29 |
| Share of net loss of an associate | | 482 | 42 |
| | | 317,747 | 453,974 |
| Decrease/(increase) in inventories | | 169,811 | (142,095) |
| Increase in trade and bills receivables | | (10,352) | (1,484) |
| Increase in prepayments, deposits and other receivables | | (9,557) | (59,642) |
| Decrease in amounts due from directors | | – | 2,000 |
| Decrease in trade and bills payables | | (81,555) | (97,049) |
| Decrease in other payables and accruals | | (27,530) | (53,604) |
| Decrease/(increase) in rental deposits | | 2,310 | (218) |
| Cash generated from operations | | 360,874 | 101,882 |
| Corporate income tax paid | | (213,446) | (294,866) |
| Net cash flows from/(used in) operating activities | | 147,428 | (192,984) |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2015

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
| Net cash flows from/(used in) operating activities | | 147,428 | (192,984) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | (62,600) | (57,647) |
| Purchases of items of intangible assets | | (688) | – |
| Prepayment for acquisition of a subsidiary | | (60,878) | – |
| Proceeds from disposal of items of property, plant and equipment | | 1,724 | 1,615 |
| Repayment of loans receivable | | 21,001 | 8,860 |
| Interest received | | 21,913 | 49,038 |
| Increase in time deposits with original maturity of three months or more when acquired | 23 | (622,640) | (22,000) |
| Increase in non-current time deposits | 23 | 644,000 | (522,651) |
| Investment in an associate | | – | (40,000) |
| Net cash flows used in investing activities | | (58,168) | (582,785) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of convertible bonds | | – | 2,414,370 |
| Exercise of share option schemes | 31 | 10,910 | 7,453 |
| New bank loans | | 168,991 | – |
| Repayment of bank loans | | (34,381) | (211,101) |
| Interest paid | | – | (5,591) |
| Dividends paid to owners of the parent | 9 | (196,050) | (368,389) |
| Net cash flows (used in)/from financing activities | | (50,530) | 1,836,742 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of period | | 2,447,157 | 764,836 |
| Effect of foreign exchange rate changes, net | | (10,323) | 2,365 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 23 | 2,475,564 | 1,828,174 |

1. CORPORATE INFORMATION

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

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

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

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

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

- (i) exercise an effective financial and operational control over Mama100 E-commerce;
- (ii) exercise equity holders' voting rights of Mama100 E-commerce;
- (iii) receive substantially all of the economic interest returns generated by Mama100 E-commerce in consideration for the management and consulting services and licenses provided by the Group, and absorb the risk of losses from Mama100 E-commerce;
- (iv) obtain an irrevocable and exclusive right to purchase entire equity interest in Mama100 E-commerce from the respective equity holders for a consideration in the amount of RMB10,000, or when appraisal is required under PRC law, 1% of the appraisal price or at the lowest price permitted by then applicable PRC laws and regulations; and
- (v) obtain a pledge over the entire equity interest of Mama100 E-commerce from their respective equity holders as collateral security for all of Mama100 E-commerce payments due to the Group and to secure performance of Mama100 E-commerce's obligations under the Contractual Arrangements.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2015 (the “**period**”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and IAS 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group’s annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of the new and revised International Financial Reporting Standards (“**IFRSs**”) (which also include International Accounting Standards (“**IASs**”) and Interpretations) and the adoption of amendments to the Listing Rules relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) as disclosed in note 3.1 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group’s annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2014.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 19

Annual Improvements

2010-2012 Cycle

Annual Improvements

2011-2013 Cycle

Defined Benefit Plans: Employee Contributions

Amendments to a number of IFRSs

Amendments to a number of IFRSs

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

In addition, the Company has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current period. The main impact to the interim condensed consolidated financial statements is on the presentation and disclosure of certain information in the interim condensed consolidated financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| IFRS 9 | <i>Financial Instruments</i> ² |
| Amendments to IFRS 10 and IAS 28 (Revised) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ¹ |
| Amendments to IFRS 10, IFRS 12 and IAS 28 (Revised) | <i>Investment Entities: Applying the Consolidation Exception</i> ¹ |
| Amendments to IFRS 11 | <i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹ |
| IFRS 14 | <i>Regulatory Deferral Accounts</i> ³ |
| IFRS 15 | <i>Revenue from Contracts with Customers</i> ² |
| Amendments to IAS 1 | <i>Disclosure Initiative</i> ¹ |
| Amendments to IAS 16 and IAS 38 | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹ |
| Amendments to IAS 16 and IAS 41 | <i>Agriculture: Bearer Plants</i> ¹ |
| Amendments to IAS 27 (Revised) | <i>Equity Method in Separate Financial Statements</i> ¹ |
| <i>Annual Improvements 2012-2014 Cycle</i> | <i>Amendments to a number of IFRSs</i> ¹ |

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application, but is not yet in a position to state whether these new and revised IFRSs will have a significant impact on the Group's results of operations and financial position.

4. OPERATING SEGMENT INFORMATION

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

- (a) the infant formulas segment comprises the production of infant formulas for children under seven years old and milk formulas for expectant and nursing mothers;
- (b) the probiotic supplements segment comprises the production of probiotic supplements in the form of sachets, capsules and tablets for infants, children and expectant mothers;
- (c) the dried baby food and nutrition supplements segment comprises the production of dried baby food products made from natural foods for infants and young children, microencapsulated milk calcium chewable tablets and DHA chews/soft capsules for children, pregnant and lactating mothers; and
- (d) the baby care products segment comprises the production of baby care products for infants and children, including baby diapers and toiletry kits as well as personal care products for nursing mothers, such as nursing pads.

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, share of losses of an associate, head office and corporate expenses as well as finance costs are excluded from such measurement.

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

During the six months ended 30 June 2015 and 2014, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

| Six months ended 30 June 2015 (Unaudited) | Infant formulas RMB'000 | Probiotic supplements RMB'000 | Dried baby food and nutrition supplements RMB'000 | Baby care products RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|-------------------------------|-------------------------------------|---|----------------------------------|------------------------|------------------|
| Segment revenue: | | | | | | |
| Sales to external customers | 1,697,843 | 173,135 | 43,128 | 48,796 | - | 1,962,902 |
| Segment results | 995,316 | 110,432 | 19,214 | 17,942 | - | 1,142,904 |
| <i>Reconciliations:</i> | | | | | | |
| Interest income | | | | | | 62,601 |
| Other income and unallocated gains | | | | | | 6,239 |
| Share of losses of an associate | | | | | | (482) |
| Corporate and other unallocated expenses | | | | | | (883,594) |
| Finance costs | | | | | | (47,550) |
| Profit before tax | | | | | | 280,118 |
| Other segment information: | | | | | | |
| Depreciation and amortisation | 4,871 | 1,288 | 364 | 25 | 23,561 | 30,109 |
| Write-down of inventories to net realisable value | 1,404 | (205) | (37) | (407) | - | 755 |
| Capital expenditure* | 2,731 | - | - | - | 66,182 | 68,913 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015

4. OPERATING SEGMENT INFORMATION (CONTINUED)

| Six months ended 30 June 2014 (Unaudited) | Infant formulas RMB'000 | Probiotic supplements RMB'000 | Dried baby food and nutrition supplements RMB'000 | Baby care products RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|-------------------------------|-------------------------------------|---|----------------------------------|------------------------|------------------|
| Segment revenue: | | | | | | |
| Sales to external customers | 1,858,928 | 186,235 | 70,597 | 73,214 | – | 2,188,974 |
| Segment results | 1,146,085 | 133,367 | 32,468 | 33,681 | – | 1,345,601 |
| <i>Reconciliations:</i> | | | | | | |
| Interest income | | | | | | 49,038 |
| Other income and unallocated gains | | | | | | 4,521 |
| Share of losses of an associate | | | | | | (42) |
| Corporate and other unallocated expenses | | | | | | (925,438) |
| Finance costs | | | | | | (40,346) |
| Profit before tax | | | | | | 433,334 |
| Other segment information: | | | | | | |
| Depreciation and amortisation | 628 | 977 | 384 | 98 | 22,677 | 24,764 |
| Write-down of inventories to net realisable value | 200 | 17 | 63 | 298 | – | 578 |
| Capital expenditure* | 968 | – | – | – | 79,383 | 80,351 |

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Revenue | | |
| Sale of goods | 1,962,902 | 2,188,974 |
| Other income and gains | | |
| Bank interest income | 57,076 | 45,352 |
| Interest income from loans and bonds receivables | 5,525 | 3,686 |
| Service income | – | 1,036 |
| Government subsidies | 3,129 | 1,640 |
| Others | 3,110 | 1,845 |
| | 68,840 | 53,559 |

6. FINANCE COSTS

| | Six months ended 30 June | |
|-------------------------------|---------------------------------|--------------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Interest on bank loans | 43 | 8,123 |
| Interest on convertible bonds | 47,507 | 32,223 |
| | 47,550 | 40,346 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
| Cost of inventories sold | | 819,243 | 842,795 |
| Depreciation | | 25,339 | 20,589 |
| Amortisation of intangible assets | | 4,031 | 3,436 |
| Amortisation of land lease payments | | 739 | 739 |
| Research and development costs* | | 41,974 | 21,922 |
| Minimum lease payments under operating leases in respect of buildings | | 23,350 | 26,023 |
| Employee benefit expenses: | | | |
| Wages and salaries | | 269,705 | 266,237 |
| Pension scheme contributions (defined contribution schemes) | | 58,288 | 48,770 |
| Staff welfare and other expenses | | 18,593 | 32,823 |
| Equity-settled share option expense | 31 | 483 | 2,737 |
| Equity-settled share award scheme expense | 32 | 20,851 | 1,182 |
| | | 367,920 | 351,749 |
| Foreign exchange differences, net | | 11,556 | 11,316 |
| Write-down of inventories to net realisable value# | | 755 | 578 |

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

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

8. INCOME TAX

| | Six months ended 30 June | |
|---------------------------------|---------------------------------|--------------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Current – Charge for the period | | |
| Mainland China | 93,205 | 136,850 |
| Hong Kong | 7,122 | 2,529 |
| France | 66 | 286 |
| Deferred (note 28) | (25,230) | (18,554) |
| Total tax charge for the period | 75,163 | 121,111 |

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

Hong Kong profits tax

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

PRC enterprise income tax

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

France corporate income tax

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

9. DIVIDENDS

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Dividends on ordinary shares declared and paid during the period: | | |
| Final dividend for 2014 – HK\$0.41 (2013: HK\$0.44) per ordinary share | 196,050 | 210,508 |
| Special dividend for 2014 – nil (2013: HK\$0.33) per ordinary share | – | 157,881 |
| | 196,050 | 368,389 |
| Dividends on ordinary shares declared after the interim reporting date: | | |
| Interim dividend – nil (2014: HK\$0.26) per ordinary share | – | 124,501 |

The board of directors does not recommend the payment of an interim dividend for the six month ended 30 June 2015.

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 period attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 604,616,727 (2014: 601,031,597) in issue during the period.

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

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
| Earnings | | |
| Profit attributable to owners of the parent used in the basic earnings per share calculation | 204,955 | 312,223 |
| | Number of Shares | |
| Shares | | |
| Weighted average number of ordinary shares in issue | 608,033,502 | 603,114,820 |
| Weighted average number of shares held for the share award schemes | (3,416,775) | (2,083,223) |
| Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation | 604,616,727 | 601,031,597 |
| Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares | 9,319,527 | 12,056,971 |
| Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation | 613,936,254 | 613,088,568 |

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment with an aggregate cost of RMB68,225,000 (six months ended 30 June 2014: RMB75,005,000). During the period, depreciation of RMB25,339,000 (six months ended 30 June 2014: RMB20,589,000) was charged, and property, plant and equipment with an aggregate carrying amount of RMB1,748,000 (six months ended 30 June 2014: RMB1,644,000) was disposed of by the Group. Besides, construction in progress of RMB397,000 was completed and transferred to intangible assets during the period.

12. PREPAID LAND LEASE PAYMENTS

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|---|---|---|
| Carrying amount at 1 January | 64,721 | 66,199 |
| Recognised during the period/year | (739) | (1,478) |
| Carry amount at period/year end | 63,982 | 64,721 |
| Current portion included in prepayments, deposits and other receivables (note 22) | (1,478) | (1,478) |
| Non-current portion | 62,504 | 63,243 |

The leasehold lands are situated in Mainland China and are held under a medium term lease.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015

13. GOODWILL

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--------------------------------|---|---|
| Cost: | | |
| At period/year end | 76,000 | 76,000 |
| Accumulated impairment: | | |
| At period/year end | - | - |
| Net carrying amount: | | |
| At period/year end | 76,000 | 76,000 |

14. INTANGIBLE ASSETS

During the period, the Group acquired computer software with an aggregate cost of RMB1,085,000 (six months ended 30 June 2014: nil). During the period, amortisation of RMB4,031,000 (six months ended 30 June 2014: RMB3,436,000) was charged by the Group.

15. BONDS RECEIVABLE

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|------------------|---|---|
| Bonds receivable | 120,066 | 130,302 |

The bonds receivable represented 17,477,075 bonds of Isigny Sainte Mère (“**ISM**”), with a nominal value of Euro1 per bond. 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.

16. LOANS RECEIVABLE

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|-------------------------------------|---|---|
| Current portion of loans receivable | 16,175 | 39,457 |
| Loans receivable due after one year | 61,337 | 53,531 |
| Total loans receivable | 77,512 | 92,988 |
| Derivative financial instrument | 2,568 | 2,570 |

| | Effective interest rate | Maturity | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|---|--------------------------------|--|---|---|
| Denominated in United States dollars (the "US\$") | 3.00% | By instalments before December 2018 | 51,418 | 32,654 |
| Denominated in Danish kroner (the "DKK") | DKK CIBOR rate +1% | By instalments before January 2017 | 26,094 | 60,334 |
| Total loans receivable | | | 77,512 | 92,988 |

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.

The loan receivable denominated in US\$ is convertible at the option of the Company at any time before maturity into equity interest of the unlisted borrower, which may not exceed 49% of the outstanding equity interests of the borrower. The convertible loan is redeemable under certain circumstances before the maturity.

The convertible loan is separated into two components: the debt element and the conversion option element. The Group has classified the debt element and the conversion option element as loan receivable and derivative financial instrument, respectively. The fair value of the conversion option at 30 June 2015 was RMB2,568,000 (31 December 2014: RMB2,570,000).

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015

17. PREPAYMENTS AND DEPOSITS

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|---|---|---|
| Deposits paid for the purchase of property, plant and equipment | 4,900 | 9,809 |
| Rental deposits | 3,622 | 5,932 |
| Prepayment for acquisition | 60,878 | – |
| Prepayment for the purchase of intangible asset | 27,511 | – |
| | 96,911 | 15,741 |

18. INVESTMENT IN AN ASSOCIATE

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--------------------------|---|---|
| Unlisted shares, at cost | 40,000 | 40,000 |
| Share of net assets | 110 | 592 |
| | 40,110 | 40,592 |
| Loan to an associate | 40,000 | 40,000 |

The loan to an associate is unsecured and bears interest at a rate of 3% per annum, and is repayable within two years.

The Group's trade payable balances with the associates are disclosed in note 24 to the interim condensed consolidated financial statements.

Particulars of the associate are as follows:

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

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

18. INVESTMENT IN AN ASSOCIATE (CONTINUED)

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

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Share of the associate's total loss for the period | (482) | (42) |
| Share of the associate's total comprehensive loss for the period | (482) | (42) |
| Carrying amount of the Group's investment in the associate | 40,110 | 39,958 |

19. HELD-TO-MATURITY INVESTMENT

| | 30 June | 31 December |
|-------------------|--------------------|-------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Investment in ISM | 17,332 | 18,810 |

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 Euro5 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 the 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015

20. INVENTORIES

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--------------------------|---|---|
| Raw materials | 294,149 | 535,693 |
| Raw materials in transit | 164,648 | 156,031 |
| Work in progress | 5,718 | 2,491 |
| Finished goods | 161,946 | 102,812 |
| | 626,461 | 797,027 |

21. TRADE AND BILLS RECEIVABLES

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|----------------------------|---|---|
| Trade receivables | 11,054 | 1,529 |
| Bills receivable | 11,341 | 10,514 |
| Less: Impairment provision | - | - |
| | 22,395 | 12,043 |

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, based on the invoice date, is as follows:

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|----------------|---|---|
| Within 1 month | 12,516 | 1,513 |
| 1 to 3 months | 8,345 | 10,529 |
| Over 3 months | 1,534 | 1 |
| | 22,395 | 12,043 |

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.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--|---|---|
| Prepayments | 6,723 | 31,172 |
| Deposits | 966 | 1,202 |
| Other receivables | 138,901 | 87,330 |
| Prepaid expenses | 29,901 | 16,285 |
| Current portion of prepaid land lease payments (note 12) | 1,478 | 1,478 |
| | 177,969 | 137,467 |

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.

23. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|---|---|---|
| Cash and bank balances | 2,204,633 | 1,868,280 |
| Time deposits | 2,272,461 | 2,625,060 |
| | 4,477,094 | 4,493,340 |
| Less: | | |
| Non-pledged time deposits with maturity date after one year | (478,890) | (1,146,183) |
| Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position | 3,998,204 | 3,347,157 |
| Less: Non-pledged time deposits with original maturity of three months or more when acquired | (1,522,640) | (900,000) |
| Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows | 2,475,564 | 2,447,157 |

23. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS (CONTINUED)

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 or three years 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.

24. TRADE AND BILLS PAYABLES

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|----------------|---|---|
| Trade payables | 193,375 | 289,529 |
| Bills payables | – | 5,013 |
| | 193,375 | 294,542 |

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

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|----------------|---|---|
| Within 1 month | 179,922 | 273,967 |
| 1 to 3 months | 10,437 | 19,825 |
| Over 3 months | 3,016 | 750 |
| | 193,375 | 294,542 |

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

Included in the Group's trade payables are amounts due to the Group's associate of RMB141,000 (31 December 2014: RMB20,498,000), which are repayable on similar credit terms to those offered by the major suppliers of the Group.

25. OTHER PAYABLES AND ACCRUALS

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|-------------------------------|---|---|
| Advances from customers | 21,743 | 11,725 |
| Salaries and welfare payables | 74,963 | 87,900 |
| Accruals | 386,634 | 402,252 |
| Other tax payables | 64,668 | 114,187 |
| Deferred income (note 29) | 84,347 | 31,397 |
| Other payables | 78,368 | 90,033 |
| | 710,723 | 737,494 |

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

26. INTEREST-BEARING BANK LOANS

| | 30 June 2015 | | | 31 December 2014 | | |
|----------------------|-----------------------------------|------------------|----------------|-----------------------------------|----------|---------|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| Current | | | | | | |
| Unsecured bank loans | EURIBOR +0.28% | On demand | 66,550 | - | - | - |
| Unsecured bank loans | HIBOR+0.75% | On demand | 68,060 | - | - | - |
| | | | 134,610 | | | - |

As at 30 June 2015, all the Group's bank loans were denominated in Euro.

27. CONVERTIBLE BONDS

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

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

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

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

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

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

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

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--|---|---|
| Nominal value of convertible bonds issued during the period | 2,460,625 | 2,460,625 |
| Equity component | (66,978) | (66,978) |
| Direct transaction costs attributable to the liability component | (46,255) | (46,255) |
| Liability component at the issuance date | 2,347,392 | 2,347,392 |
| Interest expense | 124,065 | 77,983 |
| Exchange alignment | (15,750) | (14,849) |
| Liability component | 2,455,707 | 2,410,526 |

28. DEFERRED TAX

The movements in deferred tax assets and liabilities during the period/year are as follows:

Deferred tax assets

| | 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 | Total RMB'000 |
|---|---|---|--|-------------------------------|------------------|
| At 1 January 2015 | 1,527 | 93,058 | 26,461 | 7,850 | 128,896 |
| Credited to the profit or loss for the period | 150 | 5,823 | 9,037 | 13,237 | 28,247 |
| At 30 June 2015 | 1,677 | 98,881 | 35,498 | 21,087 | 157,143 |
| At 1 January 2014 | 1,266 | 89,108 | 20,576 | 12,942 | 123,892 |
| Credited/(charged) to the profit or loss for the year | 261 | 3,950 | 5,885 | (5,092) | 5,004 |
| At 31 December 2014 | 1,527 | 93,058 | 26,461 | 7,850 | 128,896 |

Deferred tax liabilities

| | Withholding tax on distributable profits of subsidiaries in the PRC RMB'000 | Fair value adjustments arising from acquisition of a subsidiary RMB'000 | Total RMB'000 |
|--|---|---|------------------|
| At 1 January 2015 | 16,305 | 19,619 | 35,924 |
| (Credited)/charged to the profit or loss for the period | 3,679 [#] | (662) | 3,017 |
| At 30 June 2015 | 19,984 | 18,957 | 38,941 |
| At 1 January 2014 | 59,671 | 20,945 | 80,616 |
| (Credited)/charged to the profit or loss for the year | (43,366) [#] | (1,326) | (44,692) |
| At 31 December 2014 | 16,305 | 19,619 | 35,924 |

[#] The amount as at 30 June 2015 represented a deferred tax provision of RMB3,679,000 on the distributable profits of the Company's subsidiaries in Mainland China. The amount as at 31 December 2014 represented a deferred tax provision of RMB14,152,000 on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB57,518,000 arising from dividends declared by these subsidiaries to their foreign investors during the year 2014.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015

29. DEFERRED INCOME

| | Customer loyalty program RMB'000 |
|---|---|
| At 1 January 2015 | 31,397 |
| Additions | 206,916 |
| Recognised as revenue during the period | (153,966) |
| At 30 June 2015 | 84,347 |
| At 1 January 2014 | 51,768 |
| Additions | 416,114 |
| Recognised as revenue during the year | (436,485) |
| At 31 December 2014 | 31,397 |

30. SHARE CAPITAL

| | 30 June 2015 (Unaudited) | 31 December 2014 (Audited) |
|---|---|----------------------------------|
| Authorised: 10,000,000,000 (31 December 2014: 10,000,000,000) ordinary shares of HK\$0.01 each | HK\$100,000,000 | HK\$100,000,000 |
| Issued and fully paid: 609,336,792 (31 December 2014: 606,825,765) ordinary shares of HK\$0.01 each | HK\$6,093,368 | HK\$6,068,258 |
| Equivalent to | RMB5,217,000 | RMB5,197,000 |

30. SHARE CAPITAL (CONTINUED)

A summary of movements in the Company's share capital is as follows:

| | Number of shares in issue | Share capital HK\$'000 | Equivalent to RMB'000 |
|--|------------------------------|------------------------------|-----------------------------|
| 1 January 2014 | 602,294,000 | 6,023 | 5,161 |
| Share options exercised | 2,428,449 | 24 | 19 |
| Issues for 2013 Share Award Scheme | 2,103,316 | 21 | 17 |
| At 31 December 2014 and 1 January 2015 | 606,825,765 | 6,068 | 5,197 |
| Share options exercised (note) | 2,511,027 | 25 | 20 |
| At 30 June 2015 | 609,336,792 | 6,093 | 5,217 |

Note:

During the period, the subscription rights attaching to 2,511,027 share options were exercised, resulting in the issue of 2,511,027 shares of HK\$0.01 each and the increase in share capital of HK\$25,000 (equivalent to RMB20,000).

Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 31 to the interim condensed consolidated financial statements.

Share Award Schemes

Details of the Company's share award schemes and the shares awarded under the schemes are included in note 32 to the interim condensed consolidated financial statements.

31. SHARE OPTION SCHEMES

The Company adopted a pre-initial public offering share option scheme (the “**Pre-IPO Share Option Scheme**”) on 12 July 2010 and a share option scheme (the “**Share Option Scheme**”) on 25 November 2010 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

Pre-IPO Share Option Scheme

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

| | Six months ended 30 June | | | |
|-----------------------------|--|------------------------|--|------------------------|
| | 2015 | | 2014 | |
| | 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 | 2.53 | 6,929 | 2.53 | 9,179 |
| Forfeited during the period | 2.53 | (156) | 2.53 | (65) |
| Exercised during the period | 2.53 | (2,028) | 2.53 | (1,730) |
| At 30 June | 2.53 | 4,745 | 2.53 | 7,384 |

The weighted average share price at the date of exercise for share options exercised under the Pre-IPO Share Option Scheme during the period was HK\$35.23 per share (Six months ended 30 June 2014: HK\$52.35).

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme as at 30 June 2015 are as follows:

| Number of options '000 | Exercise price HK\$ per share | Exercise period |
|------------------------|-------------------------------|----------------------|
| 2 | 2.53 | 17-12-13 to 17-12-16 |
| 2,033 | 2.53 | 17-12-14 to 17-12-16 |
| 2,710 | 2.53 | 17-12-15 to 17-12-16 |
| 4,745 | | |

The Group recognised a share option expense related to share options under the Pre-IPO Share Option Scheme of RMB383,000 during the period (six months ended 30 June 2014: RMB1,224,000).

The 2,028,000 share options exercised under the Pre-IPO Share Option Scheme during the period resulted in the issue of 2,028,000 ordinary shares of the Company and new share capital of HK\$20,280 (equivalent to RMB16,000) and share premium of HK\$5,109,000 (equivalent to RMB4,030,000) (before issue expenses). An amount of RMB4,132,000 was transferred from the share option reserve to the share premium account upon the exercise of these share options.

31. SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme (continued)

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 4,745,000 additional ordinary shares of the Company and additional share capital of HK\$47,000 (equivalent to RMB37,000) and share premium of HK\$11,957,000 (equivalent to RMB9,452,000) (before issue expenses).

At the date of approval of these interim condensed consolidated financial statements, the Company had 4,657,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.8% of the Company's shares in issue as at that date.

Share Option Scheme

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

| | Six months ended 30 June | | | |
|-----------------------------|--|------------------------|--|------------------------|
| | 2015 | | 2014 | |
| | 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 | 18.06 | 2,739 | 18.11 | 3,518 |
| Forfeited during the period | 17.19 | (169) | 19.05 | (128) |
| Exercised during the period | 17.99 | (484) | 17.80 | (283) |
| At 30 June | 18.14 | 2,086 | 18.10 | 3,107 |

The weighted average share price at the date of exercise for share options exercised under the Share Option Scheme during the period was HK\$35.79 per share (Six months ended 30 June 2014: HK\$50.87).

31. SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

The exercise prices and exercise periods of the share options outstanding under the Share Option Scheme as at 30 June 2015 are as follows:

| Number of options '000 | Exercise price* HK\$ per share | Exercise period |
|---------------------------|--------------------------------------|----------------------|
| 10 | 15.312 | 17-12-13 to 17-12-16 |
| 21 | 11.52 | 17-12-13 to 17-12-16 |
| 90 | 12.12 | 17-12-13 to 17-12-16 |
| 54 | 19.64 | 17-12-13 to 17-12-16 |
| 110 | 24.70 | 17-12-13 to 17-12-16 |
| 142 | 15.312 | 17-12-14 to 17-12-16 |
| 150 | 11.52 | 17-12-14 to 17-12-16 |
| 90 | 12.12 | 17-12-14 to 17-12-16 |
| 127 | 19.64 | 17-12-14 to 17-12-16 |
| 263 | 24.70 | 17-12-14 to 17-12-16 |
| 189 | 15.312 | 17-12-15 to 17-12-16 |
| 200 | 11.52 | 17-12-15 to 17-12-16 |
| 120 | 12.12 | 17-12-15 to 17-12-16 |
| 169 | 19.64 | 17-12-15 to 17-12-16 |
| 351 | 24.70 | 17-12-15 to 17-12-16 |
| 2,086 | | |

* 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 RMB100,000 during the period (six months ended 30 June 2014: RMB1,513,000).

The 484,000 share options exercised under the Share Option Scheme during the period resulted in the issue of 484,000 ordinary shares of the Company and new share capital of HK\$4,840 (equivalent to RMB4,000) and share premium of HK\$8,693,000 (equivalent to RMB6,860,000 (before issue expenses)). An amount of RMB2,356,000 was transferred from the share option reserve to the share premium account upon the exercise of these share options.

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 2,086,000 additional ordinary shares of the Company and additional share capital of HK\$21,000 (equivalent to RMB16,000) and share premium of HK\$28,440,000 (equivalent to RMB22,480,000 (before issue expenses)).

At the date of approval of these interim condensed consolidated financial statements, the Company had 2,078,000 share options outstanding under the Share Option Scheme, which represented approximately 0.3% of the Company's shares in issue as at that date.

32. 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.

Summary of particulars of the shares granted under the Share Award Scheme (the “**Awarded Shares**”) during the period is as follows:

| Date of grant | Number of outstanding awarded shares as at 31 December 2014 | Fair value RMB | Vesting date | Number of Awarded Shares | | |
|-----------------|---|----------------|-----------------|--------------------------|-----------------------------|---|
| | | | | Vested during the period | Forfeited during the period | Outstanding awarded shares as at 30 June 2015 |
| 10 October 2014 | 645,600 | 12,783,000 | 30 October 2015 | - | (55,000) | 590,600 ¹ |

¹ Among these Awarded Shares granted, 17,600 Awarded Shares were granted to the executive directors.

The Group recognised a share award expense of RMB5,118,000 during the period (six months ended 30 June 2014: RMB1,182,000).

During the period, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (during the six months ended 30 June 2014: nil).

32. SHARE AWARD SCHEMES (CONTINUED)

Share Award Scheme (continued)

No shares held for the Share Award Scheme were awarded upon vesting during the period (Six months ended 30 June 2014: RMB25,043,000). No Share award reserve related to the forfeited Awarded Shares was transferred to retained profits for the forfeited Awarded Shares during the period (Six months ended 30 June 2014: RMB11,374,000).

At the date of approval of these financial statements, 590,600 outstanding Awarded Shares are held by the Trustee of the Share Award Scheme for relevant grantees; and 722,859 shares (including those Awarded Shares forfeited) are held by the Trustee and have yet to be awarded.

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 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.

On 14 May 2015, the Board resolved to expand the scope of eligible participants under the 2013 Share Award Scheme to the effect that in addition to the bona fide employee of the Company or of any subsidiary of the Company, any consultant, adviser or agent of the Company or of any subsidiary of the Company is also eligible to be granted awards under the 2013 Share Award 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.

32. SHARE AWARD SCHEMES (CONTINUED)

Summary of particulars of the shares granted under the 2013 Share Award Scheme during the period is as follows:

| Date of grant | Number of outstanding awarded shares as at 31 December 2014 | Fair value RMB | Vesting date | Number of Awarded Shares | | |
|-----------------|---|----------------|------------------|--------------------------|-----------------------------|---|
| | | | | Vested during the period | Forfeited during the period | Outstanding awarded shares as at 30 June 2015 |
| 10 October 2014 | 1,998,285 | 40,588,000 | 30 November 2015 | - | (178,649) | 1,819,636 |

The Group recognised a share award expense of RMB15,733,000 during the period (six months ended 30 June 2014: nil).

At the date of approval of these interim condensed consolidated financial statements, 1,819,636 shares of the Company are issued and held by the trustee of the 2013 Share Award Scheme for relevant grantees; and 283,680 shares (including those Awarded Shares forfeited) are issued and held by the Trustee and have yet to be awarded.

33. OPERATING LEASE ARRANGEMENTS

As lessee

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

As at 30 June 2015 and 31 December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|---|--|--|
| Within one year | 25,074 | 29,448 |
| In the second to fifth years, inclusive | 16,133 | 21,864 |
| After five years | 4,562 | 4,043 |
| | 45,769 | 55,355 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|-----------------------------------|---|---|
| Contracted, but not provided for: | | |
| Property, plant and equipment | 23,091 | 24,206 |
| Intangible assets | 119 | 825 |
| | 23,210 | 25,031 |

35. RELATED PARTY BALANCES AND TRANSACTIONS

The Group had the following material transactions with related parties during the period:

(a) Related party transactions

| | Note | Six months ended 30 June 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
|--|------|--|--------------------------------|
| Purchases from a company under common control of certain directors | (i) | 1,674 | 3,194 |
| Purchases of finished goods from an associate | (ii) | 62,529 | – |

Notes:

- (i) 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.
- (ii) The transactions were conducted in accordance with mutually agreed terms.

(b) Outstanding balances with related party

- (i) At the end of the reporting period, the balance owing to the supplier under common control of certain directors was RMB141,000 (31 December 2014: RMB1,645,000).
- (ii) Details of the Group's trade balances with the associate as at the end of the reporting period are disclosed in note 24.
- (iii) Details of the Group's loan to the associate as at the end of the reporting period are included in note 18 to the interim condensed consolidated financial statements.

35. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)
(c) Compensation of key management personnel of the Group

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Fees | 890 | 890 |
| Short-term employees benefits | 25,056 | 31,109 |
| Pension scheme contributions | 678 | 520 |
| Equity-settled share option expense | 354 | 681 |
| Equity-settled share award scheme expense | 1,006 | 1,307 |
| | 27,984 | 34,507 |
| Total compensation paid to key management personnel | 27,984 | 34,507 |

36. 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:

| | Notes | 30 June | 31 December |
|---|-------|--------------------|------------------|
| | | 2015 | 2014 |
| | | RMB'000 | RMB'000 |
| | | (Unaudited) | (Audited) |
| Loans and receivables: | | | |
| Bonds receivable | 15 | 120,066 | 130,302 |
| Loans receivable | 16 | 77,512 | 92,988 |
| Non-current time deposits | 23 | 478,890 | 1,146,183 |
| Trade and bills receivables | 21 | 22,395 | 12,043 |
| Financial assets included in prepayments, deposits and other receivables | | 139,866 | 88,532 |
| Cash and cash equivalents | 23 | 3,998,204 | 3,347,157 |
| Held-to-maturity investment | 19 | 17,332 | 18,810 |
| Financial assets at fair value through profit or loss: | | | |
| Derivative financial instrument | 16 | 2,568 | 2,570 |
| | | 4,856,833 | 4,838,585 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015

36. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

| | Notes | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|---|-------|---|---|
| Financial liabilities at amortised costs: | | | |
| Trade and bills payables | 24 | 193,375 | 294,542 |
| Financial liabilities included in other payables and accruals | | 451,904 | 488,482 |
| Interest-bearing bank loans | 26 | 134,610 | – |
| | | 779,889 | 783,024 |

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

| | Carrying amounts | | Fair values | |
|---------------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|
| | 30 June 2015 RMB'000 | 31 December 2014 RMB'000 | 30 June 2015 RMB'000 | 31 December 2014 RMB'000 |
| Financial assets | | | | |
| Derivative financial instrument | 2,568 | 2,570 | 2,568 | 2,570 |

Management has assessed that the fair values of trade and bills receivables, financial assets included in prepayments, deposits and other receivables, cash and cash equivalents, 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:

- The fair values of the bonds receivable, loans receivable, non-current time deposits, 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 30 June 2015 was assessed to be insignificant.
- The derivative financial instrument embedded in a loan receivable is measured using valuation techniques of present value calculations.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

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

| | 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) | 12.0% to 14.0% | 1% increase in WACC would result in increase in fair value by RMB445,000 |
| | | | | 1% decrease in WACC would result in decrease in fair value by RMB1,193,000 |
| | | Discount for lack of marketability | 31.9% to 33.9% | 1% increase in discount would result in decrease in fair value by RMB31,000 |
| | | | | 1% decrease in discount would result in increase in fair value by RMB65,000 |

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.

The following table provides the fair value measurement hierarchy of the Group's financial assets as at 30 June 2015 and 31 December 2014:

| | Fair value measurement using | | | Total RMB'000 |
|---------------------------------|---|--|--|------------------|
| | Quoted prices in active market (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Derivative financial instrument | | | | |
| As at 31 December 2014 | – | – | 2,570 | 2,570 |
| As at 30 June 2015 | – | – | 2,568 | 2,568 |

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Reconciliation of recurring fair value measurements categorised within level 3 of the fair value hierarchy:

| | Derivative financial instrument RMB'000 |
|--|--|
| As at 1 January 2014 | 5,936 |
| Remeasurement recognised in other comprehensive income | (3,366) |
| As at 31 December 2014 | 2,570 |
| Remeasurement recognised in other comprehensive income | (2) |
| As at 30 June 2015 | 2,568 |

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six months period ended 30 June 2015.

38. COMPARATIVE AMOUNTS

As further explained in note 3.1, due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current period, the presentation and disclosure of certain items and balances in the interim condensed consolidated financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation and disclosures.

39. EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant events occurred after the end of the reporting period and up to the approval date of the interim condensed consolidated financial statements.

40. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 18 August 2015.



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Biostime International Holdings Limited

合生元國際控股有限公司